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Print Edition September 9th 2006

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The uncertainty surrounding climate change argues for action, not inaction. America should lead the way: leader

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Politics this week

Sep 7th 2006
From The Economist print edition

Reuters

Tony Blair, Britain's prime minister, suffered his worst week since taking power in 1997. He was plunged into a leadership crisis when some of his Labour Party MPs pushed him to set a timetable for his departure from office. Britain's political class has talked of little else but the date of Mr Blair's leaving since he announced his intention to quit in good time before the next general election. See article

A survey of **European public opinion** revealed rising disapproval of George Bush's handling of international affairs. The survey, conducted by the German Marshall Fund, found that 77% of European Union citizens disapproved of the American president, up from 56% four years ago.

After a controversial debate, **Turkey's parliament** voted by a substantial majority to send troops to join the UN peacekeeping force in Lebanon. The foreign ministry said the Turkish contingent was likely to be made up of fewer than 1,000 soldiers.

A report from the European Parliament was critical of **Turkey's** progress in membership negotiations with the EU. The report said that Turkey was failing to fulfil promises on human rights and on relations with Cyprus.

At a youth rally for the centre-right UMP party, Nicolas Sarkozy, the French interior minister, emerged as the clear candidate for the party in **France's presidential election** next spring. His most popular Socialist rival, Ségolène Royal, is still being challenged by heavyweight contenders within her party. See article

An issue of national security

Catching some of his critics off guard, George Bush confirmed the existence of a secret CIA programme for interrogating **suspected terrorists** in foreign prisons. He announced that 14 of the prisoners, including the alleged mastermind behind September 11th, were to be transferred to Guantánamo Bay where they may be tried by revamped military tribunals awaiting Congress's approval. See article

Campaigning for November's **mid-term elections** began in earnest as congressmen returned to Washington from their August break. Republicans stuck to their familiar theme of national security (see above). The Democrats focused their attacks on Donald Rumsfeld, calling for a change in the civilian leadership at the Pentagon. The party said America had been made less secure by following a “stay-the-course strategy” in Iraq. See article

The former governor of **Illinois**, George Ryan, was sentenced to six-and-a-half years in jail for his part in a corruption scandal that convulsed the state Republican Party for years. Mr Ryan made world headlines when he commuted the capital sentences of prisoners on Illinois's death row shortly before he left office in 2003.

Columnists mulled over last week's (downplayed) allegation that **Richard Armitage**, a former deputy secretary of state, was the original source that leaked Valerie Plame's name to the press. For months, journalists had focused on Karl Rove, Mr Bush's top adviser, as the source.

Being neighbourly

In separate visits to Kabul, Pakistan's president, Pervez Musharraf, and NATO's secretary-general, Jaap de Hoop Scheffer, pledged more co-operation with **Afghanistan** in fighting the Taliban. NATO's top commander called for troop reinforcements to fight a stronger than expected insurgency in Afghanistan's south. See article

Meanwhile, Pakistan insisted its army spokesman had been misquoted in an interview for American television in which the official said that **Osama bin Laden** would not be taken into custody if he was in Pakistan as a “peaceful citizen”.

Protests calling for electoral reform ahead of January's election in **Bangladesh** turned violent in the capital, Dhaka. The main opposition party alleged that one of its politicians was beaten by police.

Reuters

Fighting continued in **Sri Lanka's** north-east between the government and Tamil rebels. The army claimed it had won control of a strategic area near the port city of Trincomalee, an important industrial and naval centre.

Troops trickle in

Israel said it would lift its air-and-sea blockade of **Lebanon**, as UN peacekeeping forces began to move into the south of the country; nearly 10,000 troops have been pledged, but the UN wants 15,000. Earlier, at a conference in Sweden, governments of rich countries promised to provide nearly $1 billion towards rebuilding Lebanon after its 34-day war.

At a preliminary hearing, a state prosecutor asked for Jacob Zuma, **South Africa's** former deputy president, whose supporters still want him to be the next president, to be tried next month for corruption.

More than 60 international HIV scientists, calling the South African government's policy on the virus “disastrous and pseudo-scientific”, sent a letter to President **Thabo Mbeki** to demand the resignation of his health minister.

The governments of Kenya, Ethiopia and Uganda said they were ready, in principle, to send peacekeepers to **Somalia** to stop the conflict between the UN-backed transitional government and the Council of Islamic Courts. Islamists in Somalia's capital, Mogadishu, protested against foreign intervention.

Police in **Sudan's** capital, Khartoum, fired tear gas at demonstrators protesting against higher fuel prices. Opposition to the Islamist regime is getting bolder as the government faces pressure from the UN to let a peacekeeping force into Darfur, where troops are threatening to launch an all-out assault on rebels. See article

Time to move on

AP

Two months after **Mexico's** presidential election, the country's electoral tribunal delivered its final verdict: Felipe Calderón, the candidate of President Vicente Fox's ruling party, had won. But Andrés Manuel López Obrador, the loser, continued to dispute the result and threatened to declare himself president. See article

A 25-day strike at **Chile's** Escondida mine, the world's biggest privately owned copper mine, ended after workers accepted a new contract. See article

Cuba's ailing president, Fidel Castro, who temporarily ceded power to his brother after undergoing intestinal surgery, said that “the most critical moment” was behind him and that he was on the road to recovery.

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Business this week

Sep 7th 2006
From The Economist print edition

Ford appointed Alan Mulally as its chief executive after Bill Ford, Henry Ford's great-grandson, said he was stepping down (he remains chairman). The news took some by surprise; Mr Ford had just completed a round of media interviews and announcements, such as a proposal to sell Ford's luxury Aston Martin unit. Mr Mulally heads to Detroit from Boeing, where he led a successful turnaround of the commercial-aircraft division. Investors in Ford will hope he can do the same for them; the company's share price has nose-dived since Mr Ford took control in 2001. See article

Fresh from his blockbuster bust-up with Tom Cruise, **Viacom's** chairman, Sumner Redstone, ousted Tom Freston as chief executive. The company's share price has been languishing of late, despite splitting its CBS operations into a separate unit, a decision intended to boost Viacom's stock. Mr Freston was in charge of Viacom's Paramount studio and cable-TV stations, but was criticised for lacklustre operations on the internet. See article

BAE Systems confirmed that it would, after all, sell its 20% stake in **Airbus** to **EADS**, which holds the other 80%. The price of the sale—*euro*2.75 billion ($3.5 billion)—is the same value that an independent audit by Rothschild put on the holding. Meanwhile, Christian Streiff made his first big change at Airbus since becoming chief executive by replacing the head of the A380 super-jumbo project.

Then there was one

Two months after it mapped a blueprint to create one of the world's biggest mining groups, **Phelps Dodge**, a copper miner based in Arizona, abandoned its bid to take over **Inco**, a Canadian nickel miner. The pair were keen to unite, but the transaction required Inco to complete its (now failed) merger with Falconbridge, a compatriot. Big investors were also dissatisfied with the deal. A C$19.4 billion ($17.5 billion) hostile bid for Inco remains on the table from **CVRD**, a big Brazilian mining firm.

Takafumi Horie, the former boss of **livedoor**, pleaded not guilty to fraud charges at the start of his trial in Tokyo. The internet-services company was thought to embody a new brash style in Japan's business culture before it collapsed earlier this year.

It emerged that the state of California had launched an investigation into **Hewlett-Packard's** methods of dealing with leaks that sprung from a boardroom dispute at the time of Carly Fiorina's sacking last year. Former directors have alleged their communications were hacked by the company.

When the chips are down

Intel said it was cutting 10% of its workforce, or 10,500 jobs, to reduce costs and boost profit, which is being squeezed by intense competition from Advanced Micro Devices. Investors, hoping for more savings, were unimpressed with the chipmaker's plans.

Sony announced another embarrassing delay to the launch of its PlayStation 3 games consoles in Europe. Further problems related to the integration of new Blu-ray technology mean the device will not now be available in the region until March 2007.

Universal Music, a unit of the media conglomerate Vivendi, won the bidding to buy Bertelsmann's **BMG Music Publishing**, for which it will pay *euro*1.6 billion ($2.1 billion). The deal vaults Universal ahead of EMI and Warner Music in the lucrative business of licensing song lyrics and tunes to enterprises for uses ranging from television shows to ringtones.

Russian authorities exerted more pressure on a liquefied-natural-gas project led by **Royal Dutch Shell** through a legal challenge to its construction on environmental grounds. The action should help the efforts of Gazprom, Russia's gas monopoly, to gain leverage over the $20 billion venture on Sakhalin island.

The **Compagnie Générale de Géophysique**, a French energy-field surveyor, said it was buying **Veritas**, a Texan rival, for $3.1 billion. The deal underscores increased demand for seismic-equipment services linked to the hunt for new energy reserves.

Meanwhile, Chevron, in alliance with two partners, revealed it had successfully completed a deep-water oil-production test in the **Gulf of Mexico** (breaking several records in the process). Some think that yields from recent discoveries in the Gulf may eventually rival those at Alaska's Prudhoe Bay, America's biggest field.

Bouncing back

Asian stockmarkets continued to rebound from sharp falls early in the summer, when they performed particularly badly amid a worldwide decline in shares. Figures pointing to economic and labour-market stability in America fed optimism that Asia's exports will rise as a result. Hong Kong's Hang Seng index reached a six-year high.

Infographics

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Climate change

The heat is on

Sep 7th 2006
From The Economist print edition

The uncertainty surrounding climate change argues for action, not inaction. America should lead the way

Corbis

Get article background

FOR most of the Earth's history, the planet has been either very cold, by our standards, or very hot. Fifty million years ago there was no ice on the poles and crocodiles lived in Wyoming. Eighteen thousand years ago there was ice two miles thick in Scotland and, because of the size of the ice sheets, the sea level was 130m lower. Ice-core studies show that in some places dramatic changes happened remarkably swiftly: temperatures rose by as much as 20°C in a decade. Then, 10,000 years ago, the wild fluctuations stopped, and the climate settled down to the balmy, stable state that the world has enjoyed since then. At about that time, perhaps coincidentally, perhaps not, mankind started to progress.

Man-made greenhouse gases now threaten this stability. Climate change is complicated and uncertain, but, as our survey this week explains, the underlying calculation is fairly straightforward. The global average temperature is expected to increase by between 1.4°C and 5.8°C this century. The bottom end of the range would make life a little more comfortable for northern areas and a little less pleasant for southern ones. Anything much higher than that could lead to catastrophic rises in sea levels, increases in extreme weather events such as hurricanes, flooding and drought, falling agricultural production and, perhaps, famine and mass population movement.

Nobody knows which is likelier, for the climate is a system of almost infinite complexity. Predicting how much hotter a particular level of carbon dioxide will make the world is impossible. It's not just that the precise effect of greenhouse gases on temperature is unclear. It's also that warming has countless indirect effects. It may set off mechanisms that tend to cool things down (clouds which block out sunlight, for instance) or ones that heat the world further (by melting soils in which greenhouse gases are frozen, for instance). The system could right itself or spin out of human control.

This uncertainty is central to the difficulty of tackling the problem. Since the costs of climate change are unknown, the benefits of trying to do anything to prevent it are, by definition, unclear. What's more, if they accrue at all, they will do so at some point in the future. So is it really worth using public resources now to avert an uncertain, distant risk, especially when the cash could be spent instead on goods and services that would have a measurable near-term benefit?

If the risk is big enough, yes. Governments do it all the time. They spend a small slice of tax revenue on

keeping standing armies not because they think their countries are in imminent danger of invasion but because, if it happened, the consequences would be catastrophic. Individuals do so too. They spend a little of their incomes on household insurance not because they think their homes are likely to be torched next week but because, if it happened, the results would be disastrous. Similarly, a growing body of scientific evidence suggests that the risk of a climatic catastrophe is high enough for the world to spend a small proportion of its income trying to prevent one from happening.

And the slice of global output that would have to be spent to control emissions is probably not huge. The cost differential between fossil-fuel-generated energy and some alternatives is already small, and is likely to come down. Economists trying to guess the ultimate cost of limiting carbon dioxide concentrations to 550 parts per million or below (the current level is 380ppm, 450ppm is reckoned to be ambitious and 550ppm liveable with) struggle with uncertainties too. Some models suggest there would be no cost; others that global output could be as much as 5% lower by the end of the century than if there were no attempt to control emissions. But most estimates are at the low end—below 1%.

The technological and economic aspects of the problem are, thus, not quite as challenging as many imagine. The real difficulty is political. Climate change is one of the hardest policy problems the world has ever faced. Because it is global, it is in every country's interests to get every other country to bear the burden of tackling it. Because it is long term, it is in every generation's interests to shirk the responsibility and shift it onto the next one. And that way, nothing will be done.

What Kyoto did

The Kyoto protocol, which tried to get the world's big polluters to commit themselves to cutting emissions to 1990 levels or below, was not a complete failure. European Union countries and Japan will probably hit their targets, even if Canada does not. Kyoto has also created a global market in carbon reduction, which allows emissions to be cut relatively efficiently. But it will not have much impact on emissions, and therefore on the speed of climate change, because it does not require developing countries to cut their emissions, and because America did not ratify it.

The United States is the world's biggest producer of greenhouse gases, though not for long. Every year China is building power-generating capacity almost equivalent to Britain's entire stock, almost all of it burning coal—the dirtiest fuel. It will shortly overtake America, and India is not far behind. Developing countries argue, quite reasonably, that, since the rich world created the problem, it must take the lead in solving it. So, if America continues to refuse to do anything to control its emissions, developing countries won't do anything about theirs. If America takes action, they just might.

Two measures are needed. One is an economic tool which puts a price on emitting greenhouse gases. That could be a carbon tax or a cap-and-trade system, such as Europe's Emissions-Trading Scheme, which limits how much producers can emit, and lets them buy and sell emissions credits. Ideally, politicians would choose the more efficient carbon tax, which implies a relatively stable price that producers can build into their investment plans. The more volatile cap-and-trade system, however, is easier to sell to producers, who can get free allowances when the scheme is introduced.

Either of these schemes should decrease the use of fossil fuels and increase the use of alternatives. In doing so, they are bound to raise energy prices. To keep down price rises, and thus ease the political process, governments should employ a second tool: spending to help promising new technologies get to market. Carbon sequestration, which offers the possibility of capturing carbon produced by dirty power stations and storing it underground, is a prime candidate.

Although George Bush now argues that America needs to wean itself off its dependency on oil, his administration still refuses to take serious action. But other Americans are moving. California's state assembly has just passed tough Kyoto-style targets. Many businesses, fearing that they will end up having to deal with a patchwork of state-level measures, now want federal controls. And conservative America, once solidly sceptical, is now split over the issue, as Christians concerned about mankind's stewardship of the Earth, neo-cons keen to reduce America's dependency on the Middle East and farmers who see alternative energy as a new potential source of energy come round to the idea of cutting down on carbon.

Mr Bush has got two years left in the job. He would like to be remembered as a straightshooter who did the right thing. Tackling climate change would be one way to do that.

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British politics

A quick departure and a noisy contest

Sep 7th 2006
From The Economist print edition

Britain needs a proper contest to find Tony Blair's successor

Reuters

IN THE United States the last year of a lame-duck presidency is seldom a productive affair: the president quacks on in the White House while the country's political class focuses on who should succeed him. But at least there is a defined end and a defined contest. Britain has had a lame-duck prime ministership—made worse so far by the absence of either a date for Tony Blair's departure or a public contest to succeed him.

The question of when Mr Blair will go has obsessed politicians and journalists since before the 2005 election, when the prime minister announced, unwisely it now seems, that he would not fight another election. If he won (which he duly did) he would step aside after serving his term. The hint was that he would leave in 2008; the presumption—and it did presume a lot—was that Gordon Brown, the chancellor of the exchequer (and Mr Blair's great rival), would take his place.

But over the past year Mr Blair has got gradually more unpopular, the Tories have discovered an electable leader in David Cameron and Mr Brown has grown more impatient. After Mr Blair made unwise comments in a newspaper interview last week, the hounds started baying. A group of MPs, some Brownites, some formerly Blair loyalists, wrote to him asking him to go. A string of junior members of his government resigned. After some fractious meetings with Mr Brown, Mr Blair, admitting the past week had not been his party's finest, announced on September 7th that he would be gone by this time next year.

The Cain and Abel show

That's not soon enough. Mr Blair has generally been a good prime minister, which is one reason why this newspaper preferred him again to the Tories at the last election. But he was elected to govern, not to play for time. The recent chaos has been good for neither the Labour Party nor the country.

Mr Blair wants to hang on to push through a series of reforms. His welcome plans to introduce more choice in schools and more competition in the National Health Service gain enormously from his commitment. But they have been agreed on by cabinet. And the real danger to Mr Blair's legacy lies in him being pushed out in the next few months, or even weeks—something that may still happen if his party decides that it wants him gone sooner than he wants to go. It would have been far better if he had

given a precise date—ideally by the end of this year, at the latest early next year.

But the exact date of Mr Blair's departure is not the most important issue right now. When the prime minister goes matters less than how he is replaced.

The idea, put about by Mr Brown's supporters, that there should be a “smooth and orderly transition” to the chancellor is a dangerous one. What the Labour Party and the country need is a spiky and argumentative leadership contest which allows party members and voters to find out what the people who would be prime minister propose to do in the job.

An end in sight

Despite the chancellor's relatively decent record running the economy, the endless Brown-Blair skirmishes have left deep doubts about what Prime Minister Brown would do. Would he drift to the left, where he has tended to find succour and supporters in his feuds with his neighbour? Does he want to centralise government, or might he in fact want to set more bits of it free—as he did, to his credit, with the Bank of England? The Brownites' oddly feudal reply to the conundrum of their leader's vision—let Gordon inherit, and he will show you—does not inspire confidence. This is, after all, a modern government, not a medieval dukedom.

The assumption that Mr Brown will glide smoothly into the job needs to be replaced by the assumption that he should be challenged by credible alternatives, including those who claim to be more Blairite than he is. Mr Brown may not like that idea, but such a competition is probably in his long-term interests too; he will find it much easier to unite his party behind him if he is seen to have won its leadership, rather than just been given it.

So set a firm timetable, Mr Blair—and let the contest begin. A lame-duck prime minister is not an ideal creation; but, no less than a lame-duck president, he can still govern the country. Indeed, Mr Blair might find that, when it comes to pushing through laws, a departure date will help. Politicians being who they are, the bitter rebelliousness in his party may give way to guilty, sentimental loyalty. No would-be successor will want to oppose the great leader's final wishes. If, on the other hand, Mr Blair insists on staying on too long and thus deepens the sense of chaos and drift around his government, he will be doing both himself and his country a disservice.

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Sudan

Catastrophe looms

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From The Economist print edition

Averting it in Darfur requires help, most of all from China

Reuters

ALREADY a byword for appalling bloodshed, Sudan's Darfur region is now threatened with worse: a "man-made catastrophe of an unprecedented scale", says the United Nations. This week Sudan's leader, Omar al-Bashir, took a step towards all-out war by telling the African Union (AU) that, in effect, he wanted its 7,000-strong force, which has been trying to keep the peace in Darfur, to go home. With about 10,000 Sudanese troops massing for a fresh offensive against rebel groups, Mr al-Bashir is evidently counting on a brutal but definitive military solution to the three-year old conflict, in which 300,000 people may have already been killed and 2m made homeless.

Last week the UN Security Council voted to send in a more robust force of 20,000 blue-helmeted peacekeepers (incorporating many of the AU's soldiers). Its job would be to hold the ring and to prevent the Sudanese government and its noxious proxies, the mounted *janjaweed* militia, from once again committing mass murder. But Sudan's Islamist government continues to refuse to let such a force into Darfur on the flimsy ground that they would amount to a "conspiracy for confiscating the country's sovereignty".

This is monstrous. Mr al-Bashir already accepts a 10,000-strong UN force in Sudan's southern region, where a long civil war is now mercifully in abeyance. Unlike the southern rebels, who won a promise of an eventual referendum on secession, those in Darfur want only a fairer share for their region of the oil revenues that the central government reserves to itself.

Despite a notional ceasefire in 2004, violence in Darfur has continued and is now rising fast; a peace deal signed in May has collapsed. A new round of attacks on the rebel groups by the Sudanese army, using helicopter gunships and the *janjaweed* militia, would make thousands more homeless and make it almost impossible for foreign aid-workers to supply even existing refugee camps.

If Sudan's government continues to block the deployment of peacekeepers, the UN should impose targeted sanctions on the regime, as America already has. The UN should also refer individuals in the government responsible for atrocities to the international war-crimes court at The Hague. But if Sudan's government seems unmoved by such threats, it is because thus far it has been able to fend off outside pressure with help from China and Russia on the Security Council, and with the support of a dismally supine Arab League.

Resoundingly silent about the fighting in Darfur, the Arab League presumably considers mass murder

committed by fellow Arabs to be outside its moral remit. China is a glutton for Sudan's oil and, along with Malaysia and India, is eagerly developing the country's oil industry. Russia has a flourishing arms trade with Sudan. Both China and Russia say that “in principle” they support the sending of UN peacekeepers to Darfur, yet both abstained from voting for last week's UN resolution for fear of offending Mr al-Bashir.

A friendly word

All should be bending Mr Al-Bashir's ear to encourage him to let the new peacekeepers in. But it is China that could do most to persuade its friend to accept UN assistance and end the killing in Darfur. To soothe his concerns about being bullied by his enemies, China, which has a large army and has sent troops to UN observer missions, could offer peacekeepers of its own. China is not only Africa's most enthusiastic new investor, it is also bidding for a bigger role in world affairs. But that brings bigger responsibilities too. In Sudan refusing to “interfere”, as it says it is always loth to do, risks making China an accomplice to genocide.

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European investments

Day of the MiFID

Sep 7th 2006
From The Economist print edition

Europe's move toward more open financial markets makes sense, but the details are troubling

TWENTY years ago the City of London was run by a clubby old boys' network. The business was opaque, less than efficient and closed to outsiders. Predictably, the old boys raised a din when the British government deregulated the financial markets in 1986. Yet measured by the past two decades' prosperity, it is clear that the more open and efficient markets created by that year's “Big Bang” have greatly helped the City in its quest to reign as a global financial hub.

Now come predictions that changes even bigger than Big Bang are looming for Europe's financial markets. The Markets in Financial Instruments Directive—a mouthful known as MiFID—is a cornerstone of the European Union's plan to move toward a single market in financial services, in which firms can in theory do business seamlessly across national borders (see article). It is a seductive vision and one that promises to benefit plenty of people. But MiFID will work only if regulators pull together and financial firms prepare. At the moment there is too little sign of either.

Next to the éclat of Big Bang, MiFID is more of a Long Moan. Due to take effect from November 2007, the directive will affect investment banks, brokers, exchanges and all sorts of other financial firms across Europe. In the attempt to do for financial services what the single market did for goods, MiFID will harmonise securities trading, protect investors, remove stockmarkets' monopolies and help firms operate across the EU. Although MiFID's effects may be more far-reaching than Big Bang was, they will be more gradual. In fact, the earliest, such as the pressure on financial exchanges to become more efficient or consolidate, are apparent even now.

Not everyone will benefit. Some middle-market financial firms may find it hard to compete on price with big investment banks offering securities trading across asset classes. That is to be welcomed: their loss should be their customers' gain. On balance, MiFID should promote competition, transparency and, ultimately, lower the cost of trading securities. That is a prize worth having.

Cross-breed

But not at any price. The complaints from practitioners are more than just the cavilling of vested interests. With directives from Brussels washing over Europe's financial centres, there is growing regulatory fatigue. MiFID is the most far-reaching directive yet and technology consultants are licking their chops at the prospect of helping clients comply with rules requiring ever more financial computer systems to talk with each other across borders, markets, asset classes and so on.

Exacerbating the costs of compliance are the enduring uncertainties about the details. Striving for rules that are politically acceptable across Europe, the EU has crafted a vaguely worded document that leaves private firms groping for direction only 14 months before MiFID is due to take effect. The fine intentions are all very well, but MiFID needs to be clear about the nitty-gritty. How are clients to be classified? What does “best execution” mean for products that are traded off-exchange? People dealing in bonds and specialised derivatives products argue that it is wrong to lump them in with the trading of equities. That is only sometimes true but, whatever the case, regulators need to make up their mind and frame the rules accordingly.

One choice would be to delay the directive and let people thrash out all this in their own time. But MiFID's seemingly interminable implementation has already been delayed once. Another postponement may threaten its very existence—along with the gains it promises. Far better to fix it quickly. National regulators, which are expected to transpose the EU directive into their own laws by January 2007, need to settle the ambiguities by agreeing on definitions. Until they do so, uncertainty and compliance costs will mount. Officials in Brussels are wary of dictating more detail on MiFID before the European Parliament approves it (as is likely in the next few weeks). But they need to knock national regulators' heads together and ensure that differing local implementation does not stymie the single market.

That leaves financial firms themselves. Even allowing for the ambiguities, too many are sitting on their hands—pretending, hoping, praying even that MiFID will go away. Yet pretty much any financial firm in Europe should recognise that its world is about to change. Managers need to think about what markets they want to compete in and how they will do so in an increasingly open world. Their future could depend on it.

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About sponsorship

Afghanistan

In meltdown

Sep 7th 2006
From The Economist print edition

Reinforcements are needed, but so too is a more flexible Western policy, and some humility

Getty Images

THE international effort to rebuild Afghanistan is in a desperate state. In the south NATO soldiers are fighting a full-blooded war against Taliban militants who, in the five years since they were deservedly bombed from power, have consistently proved more numerous, capable and popular than their enemies had predicted. Near the southern capital of Kandahar, the alliance has launched the biggest ground attack in its history; the British alone have lost two dozen men in the past month. For four years a separate American-led coalition force tried to crush the Taliban by similar means. The Americans failed, and it is doubtful whether NATO's bigger, but less agile, force will do better.

Northern Afghanistan is calm only by comparison. Its battles are smaller, and involve the warlords who rule in the absence of a capable state. All the violence is fuelled by an exploding drug trade, which weak government and muddled Western policies have failed to arrest. The Taliban use drugs money to buy arms—especially from the northern warlords, who were armed by America in 2001 to help topple the clerics. On September 2nd the UN revealed that Afghanistan's opium production increased this year by 49%, mostly in the south.

Across Afghanistan disenchantment with the government of Hamid Karzai and his foreign protectors is rising. In the fighting near Kandahar, the Taliban have recruited local Pushtun tribes, despite the inevitable slaughter brought by NATO's air strikes and artillery. In Kabul local and foreign officials question whether Mr Karzai and his allies can prevent the Taliban, or some similarly medieval group, returning to power, at least in southern Afghanistan.

Western leaders will be appalled by this. But they have largely themselves to blame for consistently ignoring the mounting criticism of their strategy since 2001. America and its allies invaded Afghanistan with too few troops to provide security, and were reluctant to send more after the war. For two years NATO was confined to Kabul. Outside the capital American troops were—and indeed still are—too deaf to local sensitivities and too fixated with force to be good at counter-insurgency. Reconstruction duties—building roads, disarming militias—were divvied up among different nations and organisations, which, lacking strong leadership, often shirked their tasks. As a result, and though there have been other improvements, most Afghans are less secure than they were under the Taliban. Depressingly, fewer than one in ten of them have access to electricity—just as in Taliban times.

The reconstruction effort has always been less than the minimum required to make Afghanistan tolerably stable. Yet Western governments, for various reasons, have claimed to be doing greater deeds than perhaps was possible. To justify its wider war on terror, America exaggerated the significance of two

admirably peaceful elections, in 2004 and 2005. To soothe its anxious citizens, Germany exaggerated the importance of its troops to the NATO force, while refusing to put them anywhere dangerous. Seeking to redefine the alliance, NATO's leaders have suggested its future depends upon defeating the Taliban, yet the extremists can perhaps at best be contained.

Spreading butter

The NATO force, currently 18,500 strong, was not designed to eradicate the Taliban. It was supposed to secure some areas of the country, where institutions could be strengthened and development projects executed, and so help the government extend its reach. Given the Taliban's unpredicted ferocity, the NATO force has already been beefed up, and needs to be again: it needs at least a 1,000-man reserve, with air support. More important, the violence must not detract from the alliance's main mission, which was to help deliver development to aggrieved southerners. During the winter, when fighting winds down, massive aid must be distributed, including, it should be admitted, money to venal but influential locals, to draw people back from the Taliban. For the moment, cash is a more potent weapon than lofty sermons about democracy.

Even using such methods, NATO alone cannot tame southern Afghanistan, which may take decades. That is really a job for Afghans, starting with an effort by Mr Karzai to co-opt the rebellious southern tribes. Pakistan, a suspicious neighbour, which, at least until recently, ignored the Talibs on its turf, needs to do a lot more too. Its leader, General Pervez Musharraf, visited Kabul this week to discuss security. The outcome of that visit will be more crucial to Afghanistan than the battle near Kandahar, bloody and necessary though that is.

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Fear of flying

Welcome aboard

Sep 7th 2006
From The Economist print edition

In-flight announcements are not entirely truthful. What might an honest one sound like?

Thinkstock

“GOOD morning, ladies and gentlemen. We are delighted to welcome you aboard Veritas Airways, the airline that tells it like it is. Please ensure that your seat belt is fastened, your seat back is upright and your tray-table is stowed. At Veritas Airways, your safety is our first priority. Actually, that is not quite true: if it were, our seats would be rear-facing, like those in military aircraft, since they are safer in the event of an emergency landing. But then hardly anybody would buy our tickets and we would go bust.

The flight attendants are now pointing out the emergency exits. This is the part of the announcement that you might want to pay attention to. So stop your sudoku for a minute and listen: knowing in advance where the exits are makes a dramatic difference to your chances of survival if we have to evacuate the aircraft. Also, please keep your seat belt fastened when seated, even if the seat-belt light is not illuminated. This is to protect you from the risk of clear-air turbulence, a rare but extremely nasty form of disturbance that can cause severe injury. Imagine the heavy food trolleys jumping into the air and bashing into the overhead lockers, and you will have some idea of how nasty it can be. We don't want to scare you. Still, keep that seat belt fastened all the same.

Your life-jacket can be found under your seat, but please do not remove it now. In fact, do not bother to look for it at all. In the event of a landing on water, an unprecedented miracle will have occurred, because in the history of aviation the number of wide-bodied aircraft that have made successful landings on water is zero. This aircraft is equipped with inflatable slides that detach to form life rafts, not that it makes any difference. Please remove high-heeled shoes before using the slides. We might as well add that space helmets and anti-gravity belts should also be removed, since even to mention the use of the slides as rafts is to enter the realm of science fiction.

Please switch off all mobile phones, since they can interfere with the aircraft's navigation systems. At least, that's what you've always been told. The real reason to switch them off is because they interfere with mobile networks on the ground, but somehow that doesn't sound quite so good. On most flights a few mobile phones are left on by mistake, so if they were really dangerous we would not allow them on board at all, if you think about it. We will have to come clean about this next year, when we introduce in-flight calling across the Veritas fleet. At that point the prospect of taking a cut of the sky-high calling charges will miraculously cause our safety concerns about mobile phones to evaporate.

On channel 11 of our in-flight entertainment system you will find a video consisting of abstract imagery and a new-age soundtrack, with a voice-over explaining some exercises you can do to reduce the risk of deep-vein thrombosis. We are aware that this video is tedious, but it is not meant to be fun. It is meant

to limit our liability in the event of lawsuits.

Once we have reached cruising altitude you will be offered a light meal and a choice of beverages—a word that sounds so much better than just saying ‘drinks’, don't you think? The purpose of these refreshments is partly to keep you in your seats where you cannot do yourselves or anyone else any harm. Please consume alcohol in moderate quantities so that you become mildly sedated but not rowdy. That said, we can always turn the cabin air-quality down a notch or two to help ensure that you are sufficiently drowsy.

After take-off, the most dangerous part of the flight, the captain will say a few words that will either be so quiet that you will not be able to hear them, or so loud that they could wake the dead. So please sit back, relax and enjoy the flight. We appreciate that you have a choice of airlines and we thank you for choosing Veritas, a member of an incomprehensible alliance of obscure foreign outfits, most of which you have never heard of. Cabin crew, please make sure we have remembered to close the doors. Sorry, I mean: ‘Doors to automatic and cross-check’. Thank you for flying Veritas.”

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About sponsorship

On newspapers, Europe and Israel, MI6, Ethiopia and Somalia, corruption scores, Turkey, China, think-tanks

Sep 7th 2006
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Read all about it

SIR – The sensationalist headline to your leader on the newspaper industry was more suited to a tabloid than the reasoned pages of *The Economist* ("Who killed the newspaper?", August 26th). To borrow a line from the great newspaperman Samuel Clemens, the reports of our death are greatly exaggerated. There is no denying that the entire media industry is grappling with tectonic change. And it is true that people of all ages are increasingly using online sources to access news. But you gave short shrift to the fact that in many cases those online visitors are reading content written and posted by the staffs at the websites of mainstream daily newspapers.

Our data show that local dailies and their websites are a potent combination, capturing a commanding share of the audience for local news and information. That combination is shoring up the total newspaper audience, enabling newspapers to increase their revenue from advertisers. The real-estate ad category—one that you cited as a leading indicator of newspapers' supposed demise—rose by 18.5% in the second quarter compared with a year ago. Yes, our audiences' habits are changing, but around the world newspapers are proving remarkably adaptable and remain attractive to investors whose time horizons extend beyond the next quarter.

John Sturm
President, Newspaper Association of America
Vienna, Virginia

SIR – Just as the pulpit was the medium through which the medieval church broadcast its vision of a unified Christendom, so the national newspaper is the medium through which the nation-state has projected its vision of national identity. Newspapers are the glue that help hold the state together. With that glue now dissolving, the traditional concept of national identity is falling apart. It is attacked from below by demands for devolution and from above by supranational confederations, such as the EU and NAFTA. Historians may come to see the decline of the newspaper as the death-knell for the nation-state as we knew it.

Stephen Morris
Coorparoo, Australia

About the past

SIR – The history of the traumatic and complex relationship between Europeans and the ancestors of today's Israelis helps explain why Europe has "become so reflexively anti-Israel" ("To Israel with hate—and guilt", August 19th). This relationship can be characterised as a tragic love affair on the Jewish part, which was met with a deep phobia by Europe. During the Enlightenment Jews joined their fellow Europeans in the process of modernisation and secularisation, hoping they would, at last, be accepted by European society. But they were painfully betrayed. Johann Fichte, the German philosopher, saw no other solution but to cut off their heads or "to conquer for them their promised land and to pack them off there." Demands that "Jews get out, go back to Palestine", were made in the Hungarian parliament and proposals to "deport them to their ancient kingdom" echoed all over *fin-de-siècle* Europe, including Paris. In fact Israel may not have come to exist were it not for Europe, as Zionism was born out of frustrated

hopes and despair on the continent.

Rachel Elboim-Dror
Professor emeritus of education and culture
The Hebrew University of Jerusalem
Jerusalem

SIR – An independent Jewish state that is capable of defending itself contradicts both classic Christian and radical Islamic perceptions of Jews in history. Classic Christianity perceived Jews as victims, witnesses to the victory of the cross. Fundamentalist Islam cannot tolerate a non-Muslim state in the Middle East, a region which it views as the kingdom of Allah. Both religions have difficulty accepting Israeli soldiers protecting their worshippers as the Star of David flutters over Jerusalem.

Shimon Arbel
Haifa, Israel

Careers advice

SIR – You claimed that MI6 has rejected online recruitment ("Salute the spooks", August 19th). In fact, MI6, (the Secret Intelligence Service—SIS), moved to full online recruitment in April through our website, which was launched with an extensive careers section in October 2005. Our aim is to make the application process accessible to the widest possible range of recruits by openly advertising careers in the SIS (the first advert appeared in *The Economist* in April). The feedback from candidates has been positive and the decision to go online is already paying dividends in the form of a significant increase in applications and a more diverse pool of applicants—currently 18% of those attending for interview are from ethnic minority backgrounds.

Head of recruitment
Secret Intelligence Service
London

Ethiopia's security

SIR – You attempted to discredit our democratic process by coupling it to Ethiopia's principled stand on the political danger unfolding in Somalia ("The path to ruin", August 12th). Our elections are not "dodgy". For the first time in Ethiopia's history almost a third of seats were won by opposition parties and around 115 seats now have female MPs. A national democratic process is advancing smoothly with dialogue between the ruling party and all political parties. Given that Somalia's Union of Islamic Courts, which seeks to govern the whole of Somalia, has declared a jihadist war on Ethiopia, my country is concerned about its national interest and security, as well as that of the region, and the impetus of these concerns is not a design to win America's friendship. Ethiopia has suffered terrorist attacks from jihadists, who have killed civilians and destroyed property, including an assassination attempt on our minister of transport.

Berhanu Kebede
Ambassador for Ethiopia
London

SIR – When listing the dangers facing the peoples of the Horn of Africa you cited population growth as the "elephant in the corner of the room". A more apt elephantine expression is found in Swahili: when two elephants fight it is the grass that gets hurt. The people of the Horn are stuck underfoot between failing states, Western diplomats, journalists and donors, none of whom provide long-term sustainable solutions for the region. More practical would be an immediate clan-based mechanism for peace talks in Somalia, a UN-mandated regional boundary-commission that sets final borders, and the arbitration of effective resource management under joint state authority.

Kariuki Kevin Kihara
Washington, DC

More space for parking

SIR – In international events bronze medallists usually get little attention ("A ticket for corruption",

August 12th). However, when describing a new corruption ranking based on parking violations by UN diplomats you singled out Chad, the third-highest offender, and ignored Kuwait, the gold winner, which had twice as many infractions. I take solace in finding that my country's diplomats committed zero violations.

Manuel Navas
Bogotá, Colombia

ONLINE ARTICLES

The following correspondence refers to articles published only online

Turkey baiting

SIR — Why does *The Economist* seize the opportunity of a terror attack to take a couple of shots at the Turkish tourist economy ("Resorting to Terror", August 30th)? Terrorism in Turkey has claimed lives, foreign and local, for decades. But Europeans pay attention when bombs go off in tourist resorts such as Marmaris and Bodrum, which are generally overloaded with Britons. I find it difficult to believe that you condone the European attitude of being concerned only when people other than Turks are murdered. You also describe the PKK as fighting for "an independent Kurdish state", a sentiment that all but condones the killing of Turks. To us in Turkey, who nearly every week see victims of terrorism, the killing or wounding of a few Britons every five years or so won't be bringing us to tears.

Yasin Ozturk
Istanbul

Hot air

SIR — In your article ("Going deeper green", September 1st) it was irresponsible to mention China as a big source of emissions without additional clarification. Per person, according to the United Nations Millennium Development Goals Indicators (CDIAC data set), China is less of an offender than the vast majority of countries in the developed world. It hardly seems fair to reprimand the country's 3.19 metric tonnes of carbon dioxide per person, compared with figures of 9.44 for Britons and 19.82 for Americans. Yes, China's growth is a huge concern and will pose an enormous strain on the environment, but please attempt to give a more balanced perspective before pointing fingers.

Cynthia Yeung
Washington, DC

Winging it

SIR — In your article ("Richer for poorer", August 30th) you quote opinions from two American think-tanks, the Urban Institute and the American Enterprise Institute. You call the former a "left-wing think-tank" although they call themselves non-partisan. You call the latter a "free-market think-tank". In the interest of fairness shouldn't you call the latter "right-wing"? Or has the United States progressed so far rightwards that the right now is the norm?

Lennart Frantzell
Sunnyvale, California

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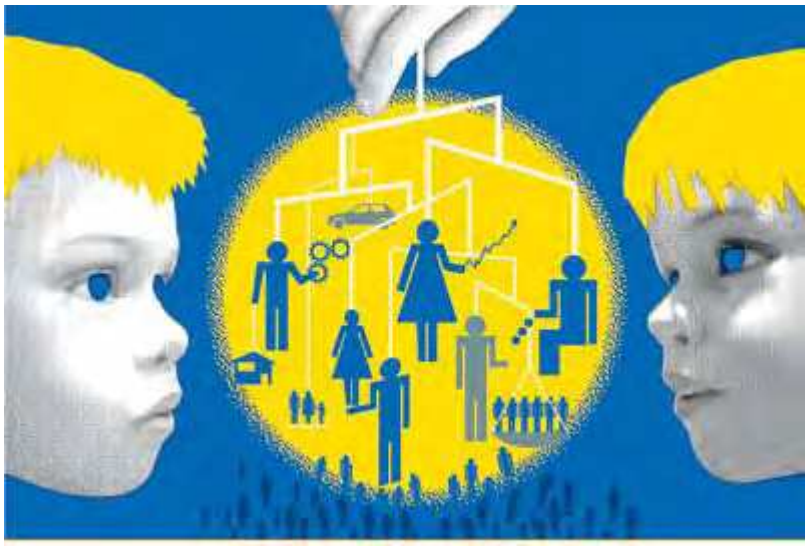
About sponsorship

The Swedish model

Admire the best, forget the rest

Sep 7th 2006 | STOCKHOLM
From The Economist print edition



Outsiders look enviously at Sweden's economic success. So why are the Swedes thinking of voting out the ruling Social Democrats next weekend?

FOR much of Europe, the past decade has been depressing. Slow growth, high unemployment and the burdens of rising public debt and falling competitiveness have renewed doubts about the sustainability of the European "social model", which is also starting to creak under the weight of an ageing population. The youthful dynamism of America, and now of China and India, seems to be leaving the decrepit old continent in the shade. Yet there has always been one bright spot amid the gloom: Scandinavia.

In recent years defenders of the European social model—capitalism tempered by a generous and interventionist welfare state—have taken to praising Scandinavia to the skies. The Nordic region, to go a bit wider, has the world's highest taxes and most generous welfare benefits. And yet Sweden, Finland and Denmark (Norway's oil sets it apart) have delivered strong growth and low unemployment, and rank among the world's most competitive economies. Nordic companies are strong in technology and research and development. Their health-care and educational systems are much admired. And, unlike other European countries, most Nordic states run healthy budget and current-account surpluses.

Sweden, whose 9m people make it by some way the biggest Nordic country, is a particular favourite. A year ago the *Guardian*, a British newspaper, said it was the most successful society the world had ever known. As if to bear this out, the Swedish economy grew at a sizzling annual rate of 5.6% in the second quarter of 2006, enough to trigger a spate of interest-rate rises by the central bank. Sweden's big companies, such as Ericsson, SKF, Telia and Volvo, are breaking export records.

A visit to the capital, Stockholm, confirms that life for most Swedes is pretty good. Yet there is disgruntlement in the air, and it is causing nervousness among the Social Democrats, who have ruled Sweden alone or with other parties for 65 of the past 74 years, and must on September 17th again face the voters in a general election. Sweden's Social Democrats are always difficult to defeat: they are well entrenched, well financed and their leader, Goran Persson, who has been prime minister for a decade, is tried and tested. But three years ago Mr Persson lost a referendum on joining the euro and, though the polls show a narrowing gap, most now favour the centre-right opposition, a four-party alliance under Fredrik Reinfeldt, leader of the Moderate Party.

Given Sweden's economic performance, this may seem like rank ingratitude. Many say that it reflects merely the passage of time. Jan Eliasson, Sweden's impressive foreign minister, notes that “We have been in power a long time. Democratic societies are affected by a desire for change.” But critics of the government point to other factors. One is a string of scandals, including several cases of nepotism, that have made the Social Democrats seem a party that has grown arrogant and too accustomed to the perks of government. Another is incompetence, notably the government's slow response to the Asian tsunami of December 2004, in which 543 Swedes died.

But the biggest beef is, perhaps surprisingly, the economy. The opposition maintains that Sweden's economic record is nothing like as good as its fans believe. If so, that has implications for other Nordic economies—and raises doubts about whether other European countries are wise to look northwards for a model.

In truth, the Swedish economy's best years are long gone. Between 1870 and 1950, average growth in Swedish GDP and productivity was, by some measures, the fastest in the world. In 1970 Sweden was the fourth-richest member of the OECD club of industrial countries. But for most of the past 50 years the story has been one of relative decline, including a deep recession in the early 1990s (see chart 1). By 1998 Sweden had fallen to 16th in the OECD rankings. It has since climbed back a bit, but the relatively strong growth of the past decade should be seen mainly as a rebound from the 1990s trough.

For all that, even the opposition accepts that Sweden has some enviable economic advantages. Anders Borg, Mr Reinfeldt's chief economic adviser, praises the country's well-managed, export-driven, high-tech companies and its well-educated workforce. Female participation in the workforce is higher than in most other countries; English is widely spoken; and Swedes are thoroughly computer-literate. Sweden is one of the few rich European countries for which globalisation has been a benefit, not a threat. Most other European governments would be pleased if they could only emulate Sweden's success.

Too few jobs

Set against this are two big weaknesses. The worst is employment. Par Nuder, the finance minister, makes much of Sweden's having the highest employment rate in the European Union after Denmark, at just over 70%. The official unemployment rate is 6%. But Sweden is a world champion at massaging its jobless figures, which exclude those in government make-work programmes, those forced into early retirement and students who would prefer to be working. Sweden's suspiciously large number of workers on long-term sick leave are counted as working, and included in the employment rate (sickness benefits account for 16% of public spending). Absenteeism is common.

Earlier this year the McKinsey Global Institute, a think-tank, studied Sweden's labour market. It found that the rate of employment among working-age people had declined in the past decade. Indeed, Magnus Henrekson of the Research Institute of Industrial Economics says that Sweden has created almost no net private-sector jobs since 1950* (see chart 2). Youth unemployment is among the highest in Europe. The McKinsey boffins conclude that the “true” unemployment rate is around 15-17%, which puts Sweden among the worst job-fillers in the EU. It translates into more than 1m people without work.

The shortage of jobs is felt most acutely by Sweden's fast-growing immigrant population. Thirty years ago Sweden was a largely homogeneous country, but today 10% of its people (and one-seventh of those of working age) are foreign-born. Sweden's new immigrants—especially the country's fast-increasing Muslim population—have integrated poorly compared with the arrivals of the 1970s and 1980s. But the biggest problem for immigrants, as for young Swedes, is work. A study of comparable Somali groups in Sweden and Minnesota found that less than a third of working-age Somalis in Sweden had jobs, half the share in Minnesota.

The result is a worrying new group of excluded people in

Swedish society. Mauricio Rojas, who arrived from Chile in 1974 and is now a member of parliament for the (opposition) Liberal Party, says that the number of "excluded areas"—places that are most deprived in terms of jobs, housing, access to transport, protection from crime and so forth—has risen from three in 1990 to 157 now. Most of these areas are heavily populated by immigrants.

Obstacles to job creation are everywhere in Sweden. Although the country's big companies have long thrived, the regulatory and tax climate is chilly to newer and smaller companies. Only one of Sweden's 50 biggest companies was founded after 1970; and Sweden has the lowest rate of self-employment in the OECD. The much-vaunted trilateral partnership between government, employers and unions works if the employer is an established large company; for a new or smaller one, it simply adds to costs. High personal taxes and generous welfare benefits—which pay people who lose their jobs as much as 80% of previous incomes for three years—discourage work. The "tax wedge" (ie, the non-wage cost of employment) is too thick, especially for low earners.

Above all, the labour market is heavily regulated. The government's labour-market board, once praised for active labour-market policies that got most of the long-term unemployed back into work, now manages to find only one-tenth of the jobs that the unemployed eventually take. Assar Lindbeck, a veteran economist, suggests that the board has become a Social Democratic holy cow that should be slaughtered by any new government.

Although there is no formal minimum wage, Sweden's powerful unions enforce one in practice. The terms of labour contracts are largely set by unions, which dislike temporary or part-time work. In Waxholm, north of Stockholm, the unions managed in 2004-05 to force a Latvian firm that had won a contract to build a school to apply Swedish collective agreements to Latvian workers. The firm went bust—and the flow of cheaper workers from eastern Europe, which Sweden was one of only three EU countries to accept openly in 2004, dried up. In contrast to Denmark's unions (see article), Sweden's also make it expensive to sack anybody, which discourages hiring.

Too many in the public sector

An overweening public sector has stifled growth in jobs in service industries. Sweden's public sector is, indeed, the economy's second big failing. Mr Nuder asserts that it is no worse than any other, and he claims that the Social Democrats welcome choice in education and health care. Yet Sweden's public sector accounts for 30% of total employment, twice the share in Germany. And, although public-sector productivity figures are unreliable, one recent assessment of efficiency of input use puts Sweden at the bottom of all OECD countries (see chart 3).

It is true, as Mr Nuder says, that Sweden has introduced choice more widely than, say, Britain. Parents can use what are, in effect, taxpayer-financed vouchers at private schools. Private health-care provision is expanding fast. Yet the culture of, to say nothing of the union influence on, the Social Democrats is against competition and private provision of public services. Carl Bildt, who was the Moderate Party prime minister during the recession of the early 1990s, notes that the government now crows about how the huge expansion of privately provided child care has helped to keep up female participation in the workforce. Yet when he pushed through the necessary legislation, it was in the teeth of fierce Social Democratic opposition.

Given Sweden's poor employment record and high taxes, why do so many voters stick with the Social Democrats? One answer, says Mr Lindbeck, is that so many are dependent on the state: some 30% work for it, and a bit over 30% receive transfer payments. Another answer is offered by Mr

Rojas. Asked why the opposition's programme is a lot more centrist than it was in 2002, Mr Rojas suggests that a big lesson from the past has been that it is a mistake to attack the government too fiercely, since “all Swedes are to some extent Social Democrats.” An attack on social democracy risks, in other words, being seen as an attack on Sweden itself.

Mr Reinfeldt is now duly cautious. Since his party lost heavily in 2002, he has redefined it, even changing its name to the New Moderate Party. In the past the centre-right has suffered from being split into four warring parties. This time Mr Reinfeldt has got all four to agree to a common programme, and to stick together during the campaign. In contrast, the Social Democrats refuse to deal with the smaller Green and Left parties, which at present back the government but are not part of it. After the election, these parties say they will carry on only in a coalition, which Mr Persson rules out. The uncertainty that hurt the right in the past has been replaced by lack of clarity on the left.

As for policies, the alliance is no longer proposing to slash taxes, nor to dismantle the welfare state. But it is proposing a cut in payroll taxes at the bottom, plus a new working tax credit, both of which should boost jobs. The alliance would pay for this in part by cutting unemployment benefit, from about 80% of previous income to 65%. It also promises further deregulation, especially of services, and more privatisation. Although Sweden's Social Democrats, unlike other left-wing parties in Europe, never nationalised big swathes of industry, the government still has large shareholdings it could sell. And most utilities are publicly owned.

For their part, the Social Democrats' programme amounts to no change. Far from cutting unemployment benefits, the government promises to raise them. As for liberalisation, Mr Nuder says baldly, “We have done enough deregulation.” Indeed, he sees little need for any further economic reforms. To Swedes who have full-time jobs, especially in the public sector, this promise of continuity may seem appealing. To the jobless young and immigrants, it will be less so. These are the groups that, according to the polls, are tilting the election towards Mr Reinfeldt.

In its closing weeks, the election campaign has turned ugly. An outbreak of acerbic name-calling has been aggravated by accusations of hacking and espionage by opposition parties, which led this week to the dramatic resignation of the Liberal Party secretary. This week's debates between the two main leaders on television have had a new, bitter edge.

That will not bother Mr Reinfeldt so long as he wins, but the opposition could split if he does not. The Social Democrats, too, may face trouble. Whether Mr Persson wins or not, most pundits expect him to step down within a year or two. But since the murder three years ago of Anna Lindh, the foreign minister, he has had no obvious successor. The ruling party is sure to start bickering if it loses next weekend.

Gorgeous, if assembled bit by bit

Where will all this leave the much-trumpeted Swedish model? Most Swedes are weary of listening to foreign claims about the perfection of their society. Mr Lindbeck suggests that, where it does have economic strengths, they are of an essentially Anglo-American, market variety. Johnny Munkhammar, who runs a pro-market think-tank, Timbro, argues similarly that history shows Sweden's economy to have flourished when it has been more liberal and low-tax—and to have gone off the rails when higher taxes and more regulation have been imposed.

The truth is that there is never a single economic model for other countries, even the Nordic states, to follow. Neither membership of the EU nor adoption of the euro seems necessary: Sweden is in the EU but not the euro, Finland is in both, Norway is in neither. Different countries have different strengths. Mr Bildt puts forward his own tongue-in-cheek recipe for the perfect “Nordic model”, stretching the geography: Finland's education, Estonia's progressive tax policy, Denmark's labour market, Iceland's entrepreneurship, Sweden's management of big companies and Norway's oil. The right conclusion, in other words, is that it is wisest not to look for a single-country model at all, but just to take best practice wherever you find it.

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* “Economic Performance and Work Activity in Sweden after the Crisis of the Early 1990s”, by Steven Davis and Magnus Henrekson. NBER papers, forthcoming

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Denmark's labour market

Flexicurity

Sep 7th 2006 | COPENHAGEN
From The Economist print edition

A model that works

THE Danish finance minister, Thor Pedersen, was cock-a-hoop as he outlined his economic record and spending plans for 2007: “We'll end up owning the whole world.” Extravagant brags aside, Mr Pedersen had reason to be cheerful. In its five years in power Denmark's centre-right government has presided over a boom. Unemployment, at 4.5%, is at its lowest in over 30 years, inflation is below the euro-area average and growth is faster. The budget surplus hit 3.9% of GDP in 2005.

It is Denmark's exceptional performance on jobs that has attracted most attention. Over the past three years the Danes have shaved the public payroll by almost 1% while boosting private-sector employment by 3.7%. Latest estimates suggest that 34,000 private-sector jobs will be created this year.

The government cannot take all the credit, but many economists fulsomely praise “flexicurity”—a peculiarly Danish blend of a flexible labour market, generous social security and an active labour-market policy with rights and obligations for the unemployed. Workers pay high taxes, but trade job security for a guarantee, should they be laid off, of time-limited but generous unemployment pay that they can live on and a promise that they will get new jobs fast. Hiring and firing can happen from one day to the next, which gives Danish companies a decided competitive edge over rivals in Sweden and Germany. About a fifth of Danish workers lose their job in any given year but most find a new job quickly.

Although flexicurity is much admired abroad, it is not necessarily easy to copy. For one thing, it is based on a century-old habit of dialogue between employers and unions that is not easily exportable to other countries seeking a quick fix. Moreover, despite enviably low unemployment and labour shortages in industries from construction to health care, the Danes are having difficulties nudging the long-term unemployed into work. The post office complains that it cannot recruit new postmen. Newspaper distributors have started importing delivery boys from Poland. One ferry operator's effort to recruit 365 new workers was stymied by an epidemic of seasickness among the unemployed who applied. Even in Denmark, it seems, would-be workers have their limitations.

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The mid-term elections

The House that Rove built

Sep 7th 2006 | WASHINGTON, DC
From The Economist print edition

Eyevine

Republican hegemony is crumbling in Congress and the country

TWO YEARS ago it looked as if Karl Rove's masterplan for a “rolling” Republican realignment was falling into place. George Bush won more votes than any candidate in American history—improving his 2000 score by 23%. The Republicans increased their vote among women, Latinos and blacks (16% of blacks voted for Mr Bush in the all-important state of Ohio). Mr Bush was the first president since FDR to win re-election while adding to his party's numbers in both the House and the Senate.

Today the masterplan is looking like a pipe-dream. Charlie Cook, an election-watcher, produces some “chilling numbers” for the Republicans. Sixty-four per cent of people think that the country is on the wrong track. Forty-six per cent “strongly” disapprove of Mr Bush's performance. Only 31% of people approve of Congress's performance—an ominous figure for Republicans given that, historically, the party in power loses an average of 29 seats whenever its approval rating is below 40%.

The Democrats lead the Republicans by 11 points when it comes to the question of which party people would like to see in charge of Congress—a much bigger lead than the Republicans enjoyed going into the 1994 landslide. The Democrats also lead in terms of intensity. They have a 17-point lead among voters who ranked themselves “extremely interested” in the mid-term elections, and a 15-point lead among people who were “highly interested”. Mr Cook predicts that the Republicans could well lose the House but hang on to the Senate by a thread. Michael Steele, a Republican candidate for the Senate in Maryland, says that the Republican “R” is the equivalent of a scarlet letter.

What has gone wrong? The short answer is almost everything. Mr Bush scored two costly home goals—first when he spent his post-election political capital on a doomed bid to reform Social Security, and second when he nominated a light-weight family retainer, Harriet Miers, for the Supreme Court, provoking a fire-storm on the right. And various Republican big-wigs have scored a succession of home goals of their own, with Jack Abramoff copping a plea, Tom DeLay, the majority leader in the House, resigning in disgrace, and Duke Cunningham, another congressman, going to prison.

Mr Bush's lacklustre response to Hurricane Katrina raised questions about his competence, particularly on the all-important question of dealing with unexpected attacks. “Brownie, you're doing a heckuva job”—Mr Bush's impromptu praise for the incompetent head of the Federal Emergency Management Agency—came to symbolise the second Bush term as much as his “bullhorn moment”—his spontaneous address to New Yorkers from the top of a burnt-out fire engine at Ground Zero after the September 11th attacks—symbolised the first. Katrina also reversed the Republican Party's advances among blacks. And beneath it all the Iraq war has eaten away at the administration, depressing Republicans, charging up anti-war Democrats and generally casting a pall over Mr Bush's record.

But the party's current problems are the result of more than just a succession of disasters. They are a result of the change in its nature under Mr Rove's stewardship. The problem may well be not just the poor implementation of the vaunted masterplan but the masterplan itself.

God and government

The Republicans have embraced “big government conservatism”. The White House has opened the spending spigots—most notoriously with the $700 billion-over-ten-years Medicare prescription-drug benefit, the first new federal entitlement for 40 years. Federal social programmes expanded more in 2000-05 than in any five-year period since LBJ's Great Society in the mid-1960s. And the Republican majority in Congress has added to the problem by indulging in an orgy of pork-barrel spending. The number of “earmarks” rose roughly tenfold between 1996 and 2006.

The party has also revelled in social conservatism. Some of Mr Bush's most showy political interventions—over stem-cell research and the Terri Schiavo affair, where he intervened to keep a severely brain-damaged woman on life support—have been designed for social conservatives. These are now the base of Mr Bush's party. Nearly nine in ten white born-again Christians continue to support Mr Bush's most controversial decision, the invasion of Iraq, far more than any other group.

But the God-and-government formula is rife with problems. It has alienated conservatives who favour small government—the people who powered the rise of conservatism from Barry Goldwater's insurgency through the Reagan revolution. Why should conservative activists trudge into battle for Mr Bush once more when he is expanding the very “puzzle-palaces on the Potomac” that St Ronald preached against?

It has also alienated many swing voters. In a poll taken at the start of the second Bush term, a majority of voters (including 54% of independents) felt that the administration was getting too involved in morality. Vast majorities of both Democrats and Republicans thought that Mr Bush should not have got involved in the Terri Schiavo affair. Mr Bush's opposition to expanding stem-cell research has stirred widespread hostility, not least from Nancy Reagan.

The God-and-government formula is particularly risky in Goldwater's old stamping ground, the mountain West. Utah has led the revolt against Mr Bush's education reform, the No Child Left Behind Act. Colorado has seen the Democrats take over both state houses. Mr Reagan held the Republican coalition together by appealing to both southern moralists and western libertarians. The danger for the Republicans is that they will become a purely southern party.

Mr Rove's masterplan boiled down to two manoeuvres. Reinforce the Republican coalition by distributing largesse to as many potential members as possible—prescription drugs for the elderly, social conservatism for Latinos and some blacks, subsidies and tax breaks for business. And then enthuse the conservative base by demonising the Democratic enemy.

But both these tactics are now coming back to haunt him. The government's activism is alienating many conservative activists. And its partisanship has whipped up a fierce opposition from the left. A Gallup poll in April 2006 put Mr Bush's approval rating among Democrats at 4%—7% lower than Richard Nixon's worst showing just before he resigned. And Democratic activists are willing to move heaven and earth to kick the Republican bums out.

None of this means that the mid-term elections are a foregone conclusion. The Republicans are a professional outfit, equipped with a massive data bank, the Voter Vault, that allows them to target potential voters, and well aware that they need to fix public perceptions as soon as possible. They are busy labelling the Democrats “Defeaticrats” and pointing to the danger of a paralysed government bent on endless investigations. For their part, the Democrats are looking divided and incompetent. But there is no doubt that these are glum times for people wearing the Republican scarlet letter.

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New York five years on

A legacy of dust

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How much, and how little, has changed

AP

SEPTEMBER 11th is everywhere. TV specials air nightly. A graphic version of the 9/11 Commission Report was published two weeks ago. City Hall has released 1,600 emergency calls recorded that terrible morning, revealing the heroism and the confusion. But for most New Yorkers, reminders are unnecessary. Breathing in the clear blue air brings back the day.

And, for some, breathing is difficult. A Mount Sinai Medical Centre study, released on September 5th, shows that almost 70% of the attacks' first-responders (police, firemen, building and utility workers) have new or worse lung problems since going to Ground Zero. Some 40,000 rescue and recovery workers were exposed to dust and toxins. Three years ago, the city set up a registry to track the long-term effects on 71,000 people who worked or lived in Lower Manhattan. More than half reported respiratory problems.

Last month George Pataki, New York's governor, signed laws increasing benefits for thousands of sick first-responders, scrapping the two-year statute of limitations for applying for workers' compensation. But who will pay? New York's mayor, Michael Bloomberg, estimates that the new laws could cost the city $550m over the next decade. The money will probably come from the city's overburdened pension funds, but the mayor wants federal and state government to help.

As for the World Trade Centre site, there has been little progress. Years of back-room fighting between politicians, victims' families, the leaseholder, the architects and the Port Authority of New York and New Jersey, which owns the site, have delayed reconstruction. But work is at last under way on digging out the Freedom Tower's foundations, and the tower may be built by 2011. Construction of the memorial footings began on August 17th.

The area will become history's largest construction site, or so says the Lower Manhattan Construction Command Centre, an agency that oversees all downtown Manhattan building projects. The attacks destroyed over 12% of the entire downtown office market, according to Jones Lang LaSalle, a property consultancy, and nearly crippled the area's economy. Many companies moved to midtown or out of the city. Some went bust.

But things are changing. “Lower Manhattan has moved beyond recovery and toward full-fledged expansion,” says Eric Deutsch, head of the Alliance for Downtown New York. The office vacancy rate is nearing single digits and rents are soaring. Since the start of last year, more than 70 companies from midtown and elsewhere have signed leases amounting to 1.6m square feet of office space. The 7 World Trade Centre office tower, the only building completed at the site, opened in May.

Tourism and restaurants are almost at pre-attack levels. Luxury brands—Tiffany, Hermés and BMW—are to open shops. More people now live downtown than in 2001. A transit hub is in the works. But security remains an ever-present worry. The city's anti-terrorism operating costs are $250m a year, with more police on the streets and in the subways. Yet in May New York City's anti-terror funding was slashed by

40% by the federal government. The cuts mean postponing the police department's plan to install a new surveillance system in the financial district.

A number of memorials, exhibitions and events will commemorate the anniversary. The New York Historical Society's “Elegy in the Dust” exhibition preserves shelves of dust-covered jeans and grimy racks of T-shirts from a store that stood in the shadow of the World Trade Centre. The display case is sealed, not to protect the contents from visitors, but the visitors from the highly toxic relics inside.

But perhaps the most obvious reminder of that awful day, and of the indecision that has followed, is the abandoned and damaged Deutsche Bank building that stands just to the south of the WTC site. It is full of toxic dust. More than 700 bone fragments have been found in and on the building since last autumn, when preparations to dismantle it began.

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Terrorism

Coming clean

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The president admits to some “alternative” methods

FOR the first time, George Bush has acknowledged the existence of secret CIA prisons around the world, where key terrorist suspects—100 in all, officials say—have been interrogated with “an alternative set of procedures”. Fourteen of the suspects, including the alleged mastermind of the September 11th attacks, were transferred on Monday to the American naval base at Guantánamo Bay in Cuba, where some will face trial for war crimes before special military commissions.

Many of these men—as Mr Bush confirmed in a televised speech at the White House on September 6th—are al-Qaeda operatives or Taliban fighters who had sought to withhold information that could “save American lives”. “In these cases, it has been necessary to move these individuals to an environment where they can be held secretly [and] questioned by experts,” the president said. He declined to say where they had been held or why they had not simply been sent straight to Guantánamo, as some 770 other suspected terrorists have been.

Mr Bush also refused to reveal what interrogation methods had been used, saying only that, though “tough”, they had been “safe and lawful and necessary”. Many believe that the main purpose of the CIA's prisons was to hide from prying eyes the torture and other cruel or degrading treatment used to extract information from prisoners. But Mr Bush insisted that America did not torture: “It's against our laws, and it's against our values. I have not authorised it—and I will not authorise it.”

The Pentagon this week issued its long-awaited new Army Field Manual, forbidding all forms of torture and degrading treatment of prisoners by army personnel—though not the CIA. For the first time, it specifically bans forced nakedness, hooding, the use of dogs, sexual humiliation and “water-boarding” (simulated drowning)—all practices that have been used at Guantánamo and Abu Ghraib.

So why did the president decide now to reveal the CIA's secret programme? Partly, he confessed, because of the Supreme Court's recent ruling that minimum protections under the Geneva Conventions applied to all military prisoners, no matter where they were. This has put American agents at risk of prosecution for war crimes. Mr Bush has now asked Congress to ban suspected terrorists from suing American personnel in federal courts.

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The California governor's race

Body-builder v boxer

Sep 7th 2006 | LOS ANGELES
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The stakes are getting higher, and the rhetoric fiercer

EPA

Looks like another vote here!

ON LABOUR DAY he paid a bicep-flexing visit to Muscle Beach in Venice, where he used to pump iron. Arnold Schwarzenegger knows how to work a crowd; and to the dismay of Phil Angelides, the Democrat hoping to supplant him as California's governor, he knows how to work the electorate too. According to the Public Policy Institute of California (PPIC), with just two months to go before November's election, the erstwhile Terminator now has a comfortable 13 percentage-point lead among likely voters.

What explains this leap, from a 33% approval rating last October, is not just stardom or money. The real reason is that in Democrat-dominated California Mr Schwarzenegger has abandoned last year's union-bashing lurch to the right in favour of the kind of socially liberal, “Republican-lite” stance that got him elected in the first place. To hardline Republicans, the governor—with a Democratic chief of staff and a Kennedy-clan wife—has become a closet Democrat.

They could be right. In 2004 Mr Schwarzenegger campaigned for George Bush, but now he has no qualms about snubbing him. In July he authorised a $150m loan for California's stem-cell research, and now, overruling federal opposition, California has become the first state in the country to set limits on industry for greenhouse-gas emissions. At last month's state party convention the governor again promised no new taxes and no driving licences for illegal immigrants, but distanced himself from the party's hardliners.

All this makes good sense. Republicans, after all, have no one else to vote for; and in a state where Democrats make up more than two-fifths of registered voters, Republicans barely a third and independents more than a fifth, the governor needs every non-Republican vote he can get. One way is to portray himself, with an approving backward glance at the Democrats' fabled former governor, Pat Brown, as the “builder” of California's future. In January Mr Schwarzenegger grandly announced a ten-year plan to invest almost $223 billion, including $68 billion in taxpayers' bonds, to upgrade the state's fraying infrastructure. Conservatives are howling, but Democrats are pleased; so the governor and the Democrat-led legislature have agreed to put four initiatives on the November ballot that will add up to bonds worth more than $37 billion. (A fifth citizens' initiative, endorsed by the governor, brings the total to almost $43 billion.)

In theory, California will then be blessed with better roads, schools and flood control, and more affordable housing. In practice, support may fade over the next weeks; the price-tag is high and, with eight other initiatives on the ballot, voters may succumb to proposition fatigue.

But from the governor's point of view, so what? His centrist position will appeal to plenty of Democrats and independents, regardless of whether they vote for the initiatives. And he is doing all in his power to woo Latinos, annoyed by last year's anti-illegal immigrant rhetoric, and blacks. The PPIC survey gives him 18% of Democrat likely voters, 42% of independents and 82% of Republicans. By contrast, Mr Angelides gets only 58% of Democrats, 3% of Republicans and 23% of independents.

So what can Mr Angelides do? The governor has stolen his clothes on the environment and, by agreeing to a rise in the minimum wage, blunted much of the union opposition he suffered last year. On the surface, Mr Angelides is undismayed: with the aid of a “Bush-Schwarzenegger index”, he attacks the governor's links to big business, emphasises his own roots in the hard-pressed middle class and rails at California's lack of affordable health care. This week, a rare fillip, he received the tardy endorsement of Antonio Villaraigosa, the mayor of Los Angeles. Best of all, he compares himself to a “Rocky”-like boxer, bloodied but still ready for the final round. Arnold's muscles are still bigger, though.

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The evening news

Goodnight and good luck

Sep 7th 2006 | NEW YORK
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Can Katie Couric save a dying national institution?

NEWS anchors are supposed to read the news, not make it. But Katie Couric's debut as host of the CBS evening news on September 5th generated bigger headlines than anything she reported on in the show. (Granted, it was a quiet news day, despite her exclusive photographic proof of the existence of Tom Cruise's baby.) Long a staple of celebrity gossip magazines, Ms Couric has been seen as the main television networks' last hope for reviving the evening news show, which has been in long-term decline since the heyday of Walter Cronkite. CBS reportedly had to offer $15m a year—unprecedented for a news anchor—to lure her away from NBC's hugely popular “Today” show.

It is hoped that she will spice up a format traditionally fronted by grey men in suits. As well as the Cruise exclusive, Ms Couric's first week promised an interview with George Bush and appearances by Bill Clinton and Rush Limbaugh, a right-wing shock jock, in a new “Free Speech” slot. Ms Couric is said to be keen on analysis and serious about world news. To that end, her first interview was about America's place in the world and with a serious columnist, Thomas Friedman, though she also showed off her much-hyped legs in a way Dan Rather would not have done.

WENN

Nice legs, too

Ms Couric thinks she is a victim of “residual sexism”. Certainly much has been made of the fact that she is the first woman to be the solo anchor of an evening news show. Although this would be no big deal in much of the world, storming this traditional male bastion in America is being treated as a huge step forward for feminism. Today the evening news, tomorrow the White House.

Yet reviving the evening news will not be easy, even for Ms Couric. Cable networks, such as CNN and Rupert Murdoch's “fair and balanced” Fox News, have been stealing viewers from the big three networks. The internet is increasingly becoming the distributor of choice for news, particularly for younger people. Legend has it that Mr Rather's career was ended by bloggers who highlighted errors in a story he presented about Mr Bush. Strikingly, Ms Couric hopes to reach that lost audience with webcasts plugging her show and a blog of her own—though already web-rumour-mongers are claiming that she is not writing it herself.

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Polygamy

A chance for the wives to rebel

Sep 7th 2006 | COLORADO CITY, ARIZONA
From The Economist print edition

And a fear that their prophet may become a martyr

SO WILL there in future be fewer pictures of smiling American patriarchs with their half-dozen pretty young wives? That is possible, but far from certain, now that Warren Jeffs, the leader and "prophet" of the Fundamentalist Church of Jesus Christ of Latter-Day Saints (FLDS), the largest polygamist sect in North America, is in jail facing trial in Utah.

Mr Jeffs has been on the run for more than a year after being charged in both Arizona and Utah, and was recently put on the FBI's Ten Most Wanted List. He was arrested north of Las Vegas on August 28th on a traffic violation, from where he was sent to Utah. Utah has a stronger case against him than Arizona; he has been indicted there for the first-degree felony of being an accomplice to rape in connection with the arranged marriage of an under-age girl to an older man.

Mr Jeffs has ruled the FLDS from Colorado City and Hildale, two tiny towns on the borders of Arizona and Utah, since his father Rulon died aged 98 in 2002. The sect broke away from the Mormon church more than a century ago when the mainstream church renounced polygamy. It is believed to have more than 10,000 members, mainly in Arizona and Utah, but also a growing number in Texas, Florida and, for some reason, British Columbia.

Benjamin Bistline, the author of "Colorado City Polygamists", says that Mr Jeffs had threatened families and dismantled them (boys are said to have been expelled from the FLDS community so that older members face less competition in winning their young wives). "People fear losing their families, and for no crime," he says. "It's best that he is put away."

The sect's future is uncertain. Gary Engels, a state investigator in Arizona, hopes that the images of a frail and skinny 50-year-old Mr Jeffs on trial may damage his formidable image, perhaps persuading some of the wives to testify against him. FLDS leaders preach that obedience is the only passage to heaven and this, to date, has deterred women from coming forward. The American media's relentless coverage of the arrest may also help. When CNN aired its "Polygamist Brides" documentary last week, one woman mentioned giving evidence against Mr Jeffs.

Even so, most people remain cautious. Like many others, Ross Chatwin, a building contractor and former sect member, remains in Colorado City with his wife and children. He says that ex-members, who have been fighting for some time to get back property seized by the FLDS, feel a little more hopeful. But current members are angry. Drivers in the town are more aggressive and heckling is loud.

Mr Chatwin worries whether the state has sufficient evidence to hold Mr Jeffs. The length of the sentence is what matters. If it is two years, Mr Jeffs will lose nobody. In ten years, everyone will be gone. But if he is hurt in prison, riots in his defence are likely. He could well become a Christ-like martyr figure, warns Mr Chatwin. "Because former members helped bring him down, we'd all have to leave, and fast."

For now, most agree that the compound in Colorado City will continue with "bishops" operating in Mr Jeffs's name. A 1953 police raid against the FLDS strengthened the faith of members and so, it is feared, will Mr Jeffs's arrest. If new strong leaders come in, the sect may flourish. Mr Bistline muses on the parable of the tiny mustard seed: "The man scatters the seeds and a mustard tree grows."

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Farm subsidies

Uncle Sam's teat

Sep 7th 2006 | WASHINGTON, DC
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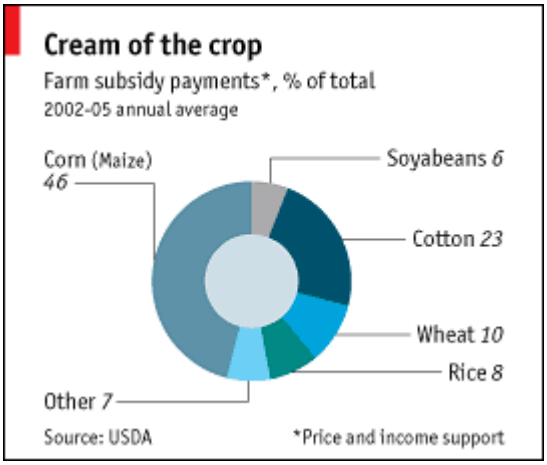
Can America's farmers be weaned from their government money?



JUST over four years ago, in May 2002, Congress passed the farm bill, a gargantuan, five-year giveaway to America's farmers. And in one of the more spineless moments of his presidency George Bush, a self-professed free-trader, signed it. Over the next year, Congress will produce a new farm bill. Conventional wisdom holds that it will be much like the last, particularly since the Doha trade talks (which would have required subsidy reform) have collapsed. The American Farm Bureau, a big farmers' lobby group, is pushing for a simple extension of today's subsidies. With the 2008 presidential election looming, it is argued, no politician dare disagree.

That logic may be wrong. America's system of supporting farmers may well change next year, though it will not necessarily get much better. Mike Johanns, Mr Bush's farm minister, says he wants reform and has promised to come up with specific proposals by January 2007. Individual congressmen are drawing up their own visions for change. Ron Kind, a Democrat from Wisconsin, will introduce the first such bill next week. He wants more cash for conservation, bigger subsidies for biofuels and coupons to allow old folk and the poor to shop at farmers' markets.

Even some of the biggest recipients of federal cash say today's system won't do. The Iowa Corn Growers Association, for instance, recently voted against extending the 2002 farm bill. It claims to want a safety net for farmers that is more “trade compatible” and “market-oriented”. Given that corn farmers got 46% of the subsidies under the farm bill, and that Iowa farmers, thanks to the state's early presidential caucus, wield disproportionate political clout, this sounds too good to be true.

It is. America's farmers have not been seized by sudden guilt. Instead, they are pre-empting pressure to change a system that is increasingly viewed as unfair, expensive and against the rules of the World Trade Organisation (WTO).

The federal government spent over $20 billion on farm subsidies last year: much less than the European Union lavishes on its mollycoddled farmers, but more than Washington spent on foreign aid and almost twice what it spends on subsidising college for poor children. And America's farm subsidies, unlike Europe's, have become more, rather than less, trade-distorting. Most of the direct cash is lavished on crops, particularly corn (maize), soyabeans, rice, cotton and wheat, often depressing world prices. Farmers who grow these crops got 93% of the subsidies between 2002 and 2005 (see chart). As a result, six out ten American farmers get no federal money, while 10% of farmers get 72% of it. Nor are these small, struggling family farmers. Over half the subsidies go to large commercial farms.

Fear of litigation at the WTO is one reason for reform's momentum. Brazil has already won a case against American cotton subsidies. It argues that America has not complied with the WTO's ruling and, on September 1st, made the first move towards retaliating. American farmers are worried that other crop subsidies, especially rice, soyabeans and even corn, could be vulnerable to a WTO case. They want the new farm bill to be WTO-proof.

For others, especially corn farmers, greed is a powerful motive. Although these farmers get the lion's share of today's subsidies, they are unlikely to in future, thanks to America's obsession with ethanol. The amount of corn used for ethanol production has soared. In 2005 the ethanol industry used 1.5 billion

bushels of grain to make 4 billion gallons of ethanol, more than double the output of 2001. Ethanol production, the farmers reckon, will raise corn prices and thus, under the current system, cause their subsidies to decline. Hence the corn growers' call for a new support system based on a “revenue insurance model”—perhaps slightly less trade-distorting than today's subsidies, but not necessarily much cheaper.

Jealousy will be the third driver of change. Public awareness of the subsidies' scale, and their inequity, has been rising. And the 60% of farmers who get no cash from Washington, particularly fruit and vegetable producers, are increasingly cross. Politically, these farmers could make a difference. Over 50% of today's farm subsidies are concentrated in 25 of America's 435 congressional districts. In California, which has 53 congressional districts, the vast majority of farm subsidies today go to three districts in the Central Valley. But speciality farmers seem to be organising more effectively than they did in 2002.

Add to these farm lobbies a cacophony of environmentalists, nutritionists and others, and it is unclear what will come out of the legislative sausage machine. The smart money is on more emphasis on alternative energy and the environment, more subsidies for conservation and less money for trade-distorting crop support. Since wheat, corn and soyabean farmers can jump on the energy bandwagon, the real losers may be rice and cotton farmers.

From a trade perspective, the new farm bill could be a modest improvement. America may well be heading for more green subsidies and fewer trade-distorting ones. But despite Washington's budget crunch, few expect Uncle Sam's generosity to farmers to abate much.

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Lexington

Paleocon Pat

Sep 7th 2006
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The brawler's back, with a new appeal to nativism

WHEN it comes to cringe-making interviews, no one beats Sacha Baron Cohen. In the guise of Ali G, a black chat-show host with a penchant for bling, shell-suits, wrap-around sunglasses and grammatical train-wrecks, the British comedian has managed (God knows how) to interview some big-name Americans. Most of his interviewees come off looking pretty silly. But Pat Buchanan more than holds his own.

Mr Buchanan gently corrects Mr G's impression that he was once president of the United States. And he deftly deals with his confusion between WMDs and BLTs. “Is you mashed or something?” Mr G asks the 67-year-old lion of social conservatism towards the end of the interview. “You're like so giggly.” “I had a little puff before, sure,” Mr Buchanan replies.

Whatever he is smoking, it certainly works. Mr Buchanan is one of the great survivors of American politics. He started his political career in the Nixon White House, as a speech-writer to both Vice-President Spiro Agnew, who resigned in disgrace, and Richard Nixon, who resigned in even bigger disgrace. But he has remained a loud voice on the political scene.

He became a star pundit, not just as a columnist but also as a founder of CNN's shout-fest, “Crossfire”. He also kept drifting back into politics—first as Ronald Reagan's head of communications in 1985-87 and then, in 1992, 1996 and 2000, as a perennial presidential candidate. In 1992 he won 37% of the vote in the New Hampshire primary, securing himself a chance to declare a culture war in a prime-time spot at the Republican convention; and in 1996, boasting that “The peasants are coming with pitchforks,” he beat Bob Dole in New Hampshire.

For most of the Bush years he has been a thorn in the president's side. Mr Buchanan dislikes almost everything that George Bush stands for, from his big-spending ways (“We do not consider ‘Big Government conservatism’ a philosophy. We consider it a heresy”) to, above all, his foreign policy.

Mr Buchanan champions an “America first” policy, a phrase that he has unashamedly borrowed from critics of America's intervention in the second world war. He warns against the imperial temptation (one of his books is called “A Republic, Not an Empire”). And he worries that America is stirring up a hornets'

nest in the Middle East: “Anti-colonial and anti-imperial terror seems to be one of the few occupations at which Arab and Islamic peoples are proficient and successful.”

And now Pat is back, with a book on the bestseller list, a successful book tour and throngs of people queuing up to tell him that he was right all along. Many of Mr Buchanan's dark warnings about intervention in the Middle East have proved all too prescient. The public's mood is as sour as it has been in years. And one of Mr Buchanan's signature issues—uncontrolled immigration—has caught fire with the public.

His new book—“State of Emergency: The Third World Invasion and Conquest of America”—is a typical exercise in talk-show hyperbole. He does not just argue that immigration policy is a mess, and that there are too many illegal immigrants. He argues that the wrong sort of people are getting into America—Mexicans from south of the border rather than people from European stock. And he argues that these Mexicans are engaged in a process of reverse colonisation—a *Reconquista* of the south-west—recapturing the lands lost in the Texas war of independence of 1835-36 and the Mexican-American war of 1846-48.

Nonsense, perhaps—but nonsense that taps into a deep seam of nativism and negativism. If the 2002 mid-term elections were the “neoconservative moment” in American politics, the 2006 mid-terms are in danger of becoming the “paleoconservative moment”.

This is bad news for the Republican Party. If a wall is erected against newcomers from south of the border, this will not only reverse the party's gains among Hispanics—Mr Bush increased his Hispanic vote to around 40% in 2004—but will also drive a wedge between business Republicans, who support immigration, and social conservatives, who tend to oppose it. The danger of a Buchanan-style pitchfork rebellion from the party's nativist wing in 2008 grows by the day.

Not a wall, but a ladder

And Buchananism is bad for America, too. Mr Buchanan is right to argue that the immigration system is a disaster, and that a country cannot survive if it is nothing more than a “polyglot boarding house”. And he is right to chastise America's elites for indulging in a trite multiculturalism. But his analysis of the immigration problem is not just misguided: it is a recipe for disaster.

The only way to deal with the economics of immigration is to bring it within the law: to give workers a ladder to citizenship and immigrant-dependent industries, such as agriculture and hotels, a realistic framework for employing immigrants legally. For a while it looked as if the Senate might pass just such a sensible compromise. But the Buchananite wing of the Republican Party in the House went into revolt, and Congress now seems to have dropped the subject.

The only way to deal with the threat of Balkanisation is to emphasise assimilation. Signs abound that Mexican immigrants are happy with the American creed. They are optimistic, family-oriented, culturally conservative and religious. They come to America in pursuit of work, not reconquest. The biggest danger of Balkanisation comes not from Mexican immigrants but from people like Mr Buchanan, who specialise in dividing America even as they claim to be trying to unite it.

Mr Buchanan remains in the wilderness, despite his boundless enthusiasm for appearing on talk shows, mainstream and otherwise. The problem is that all too many Americans, from Congress down, are making the trek to join him.

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Mexico's presidential election

Game, set and matches

Sep 7th 2006 | MEXICO CITY
From The Economist print edition

Reuters

Felipe Calderón is proclaimed president-elect, but will the loser give in?

Get article background

"TO HELL with the institutions," says Andrés Manuel López Obrador, the loser of Mexico's presidential race. Ever since July 2nd's elections, Mexico City's former left-wing mayor has bitterly contested the count that gave a wafer-thin victory to Felipe Calderón, candidate of President Vicente Fox's centre-right National Action Party (PAN). But on September 5th that result was unanimously confirmed by the federal electoral tribunal, the final arbiter of such matters.

After a partial recount of votes ordered by the tribunal in response to legal challenges from several political parties, its seven independent judges announced that Mr Calderón had received 233,831 more votes than Mr López Obrador—a margin of just 0.56%, very close to the 0.58% margin originally declared. They also dismissed Mr López Obrador's claim that campaigning by Mr Fox and his business supporters had skewed the result, though they chastised the president for interfering in the campaign.

That should now be the end of the story. Hitherto, rulings by the court, set up by an all-party consensus, have been respected. But Mr López Obrador, who insists that the election was fraudulent, still refuses to accept Mr Calderón's victory. "I will not recognise anyone who parades himself as the head of the federal government without any legitimate credentials," he told angry supporters who have been occupying Mexico City's central square, the Zócalo, and the surrounding streets, including Reforma, the main avenue, for more than a month.

The president-elect is due to take office on December 1st, but Mr López Obrador has vowed to set up a parallel government and to continue his campaign of "civil resistance" indefinitely. On September 1st, the president's annual state-of-the-union address to Congress had to be cancelled for the first time in Mexico's history when members of Mr López Obrador's Party of the Democratic Revolution (PRD) occupied the podium, preventing Mr Fox from speaking.

Matters could come to a head on September 16th, Mexican independence day, when Mr López Obrador is threatening to proclaim himself president at a planned "National Democratic Convention". The convention

will map out the future path of the resistance, he says. September 16th is also the day when Mexico's presidents traditionally give a celebratory midnight cheer for independence on the Zócalo, now blocked by Mr López Obrador's supporters. Rather than risk provoking their ire, Mr Fox may decide to deliver this year's cheer in Dolores Hidalgo, birthplace of Mexico's revolution, as earlier presidents occasionally have done. But the army insists that it will go ahead with its independence-day parade down Reforma. Unless the protesters can be persuaded to move, this could provoke some ugly clashes.

Manuel Camacho, a close adviser to Mr López Obrador, says that his candidate might still use his popular support to negotiate with Mr Calderón to obtain policy concessions and political reforms. But Mr López Obrador's ever-more strident rhetoric makes such a step seem more difficult and unlikely by the day. He seems rather to be intent on mounting further large-scale protests in an attempt to make the country ungovernable, thereby forcing his rival to step down. But even Mr López Obrador cannot sustain a protest movement simply on the strength of his charisma, particularly after his failure to substantiate his charges of fraud.

Maintaining the protests is an expensive proposition. Hitherto, at least some of the funds have come from Mexico City's government, controlled by Mr López Obrador's PRD. That could soon stop. Alejandro Encinas, the city's current mayor, says he has started trying to get the protesters off Reforma before September 16th's military parade. Enrique Krauze, a historian and political commentator, suggests that only if the PRD wins next month's elections in Mr López Obrador's home state of Tabasco will he be able to continue—implying that he would draw on the state government's resources to pay for protests.

But despite Mr López Obrador's potential to cause trouble, many observers feel reasonably sanguine about the longer-term impact of his protests. Even before the tribunal had delivered its final verdict, his support in Mexico City appeared to be fraying with a majority of residents, who had voted overwhelmingly for him in the presidential election, opposing the continuing protests. The small Convergencia party, formerly part of his electoral coalition, has now said it will respect the tribunal's verdict. There is speculation that even governors from his own party may start to call on him to recognise its ruling.

To his credit, Mr Calderón has comported himself as the polar opposite of Mr López Obrador, calling for conciliation and dialogue in a pair of acceptance speeches following the tribunal's announcement as congratulatory calls from world leaders began to pour in. Guillermo Ortiz, governor of the Bank of Mexico, whose office overlooks the camped-out protesters on the central square, says that because the financial markets had been expecting a López Obrador victory, they had already discounted his impact on the country. What is more, he says, “We will make monetary policy independently of the political situation.” Mr López Obrador is now burning up what credibility he has left. It can only be hoped that he will not take the country with him.

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Trouble in Argentina

Crime by day, protests at dusk

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A burgeoning anti-crime movement poses a challenge to President Kirchner

AP

They want more

AS DUSK descended on the Plaza de Mayo in Buenos Aires on the unseasonably warm evening of August 31st, tens of thousands of Argentines bearing candles and blown-up photographs of murdered loved ones began to pour into the capital's central square in one of the biggest anti-crime rallies ever seen in Argentina. Law and order is a big public concern and, along with inflation, is likely to dominate next year's presidential election campaign. Yet President Néstor Kirchner remains strangely reluctant to talk about it.

With approval ratings of over 70%, Argentina's left-wing president remains the favourite in the race, though he has yet to declare formally that he will run. But Argentines have become alarmed by a recent wave of much-publicised assaults in the capital, including a batch of brazen street shootings, attempted daytime rapes on the metro and armed robberies at trendy shops and restaurants in the well-heeled Palermo district. Two-thirds of residents in Buenos Aires, long regarded as one of Latin America's safest cities, now say they feel unsafe; half consider crime to be the capital's most serious problem.

Eyes are now turning to Juan Carlos Blumberg, the organiser of last week's rally, who has emerged as the leader of the burgeoning law-and-order movement in the capital. A businessman with no formal political ties, Mr Blumberg first came to prominence two years ago, when he led more than 100,000 demonstrators to the steps of Congress after his 23-year-old son had been tortured and murdered in a botched kidnapping. He has now presented the government with an 18-point plan for fighting crime. Alongside familiar conservative demands for longer sentences and tougher policing, it includes ideas for tackling the causes of crime, such as measures to reduce drug-taking among young people and to clean up shanty-towns. He also wants more jury trials.

This has fuelled speculation that Mr Blumberg might accept an invitation from Mauricio Macri, leader of the centre-right PRO party in Congress, to run for governor of the province of Buenos Aires, a post now held by Mr Kirchner's ruling Peronist party. For the moment, Mr Blumberg will not give a direct answer, saying he wants to wait until the trial of his son's alleged murderers is over before deciding his future—though he has promised not to run in the unlikely event that the government agrees to implement all 18 points of his crime-fighting plan.

Law and order is a political minefield for Mr Kirchner. Memories of Argentina's brutal military dictatorship in the 1970s still haunt many people, making them fearful of anything that might undermine civil liberties. Argentina's previous president, Eduardo Duhalde, never recovered politically after police fatally shot two young men taking part in a violent attempt to block a road in 2002. When Mr Kirchner came into office, he vowed never to use force against protesters. As well as preventing further violent incidents involving the country's security forces, this has helped to buttress the president's human-rights credentials. But public order and his own reputation for strength, which he prizes, have suffered.

Traffic around the capital is often paralysed by roadblocks set up by protesters, usually demanding welfare benefits. For the past five months, left-wing students occupying buildings have prevented the University of Buenos Aires from electing a new president. And when environmentalists blocked the main bridge connecting Argentina with neighbouring Uruguay for 45 days earlier this year, in protest against

the building of two cellulose factories, Mr Kirchner refused to intervene, causing the worst diplomatic frost with Uruguay for 50 years.

The usually voluble president has been oddly silent on the law-and-order issue. He made no comment about last week's anti-crime demonstration and ordered his officials to keep mum as well, though occasional attempts were made to link Mr Blumberg with the former dictatorship. A pro-government daily, *PÁGINA/12*, claimed to have detected some of the generals' former well-known supporters among the crowds at the rally. Although reported crime actually dropped last year by 3% in Argentina as a whole, that is not the public's impression. Crime is becoming the voters' number-one concern.

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Bolivia's constitution

Power grab

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Evo Morales seeks control of Bolivia's Constituent Assembly

"IF THINGS go on this way," said Alberto Melgar, head of a powerful citizens' lobby in the province of Beni, "we will demand separation" from Bolivia. He was reacting to an apparent attempt by Bolivia's socialist president, Evo Morales, to seize control of the Constituent Assembly, based in the southern city of Sucre, which is rewriting the country's constitution.

On September 1st Mr Morales's Movement Toward Socialism (MAS), which holds 137 of the assembly's 255 seats, passed a measure permitting the body to make decisions by a simple majority. Tradition demands a two-thirds majority and the law convening the new assembly appears to do the same. Mr Morales's power grab has alarmed lowland provinces such as Beni, whose leaders are profoundly out of sympathy with his radical economic and social agenda. They have called a general strike for September 8th.

Untrammelled control of the assembly would allow the MAS to achieve its dream of "refounding" Bolivia in favour of its poor, indigenous majority without having to compromise with the "oligarchy" that stands in its way. Although there is as yet no clear blueprint for this, the opposition has at least two immediate fears.

One is that Mr Morales will vastly expand his power. Led by the MAS, the assembly has already declared itself "originary and plenipotentiary", which apparently means, in theory at least, that it would have ascendancy over all other branches of government. Mr Morales has said he would resign if the assembly asked him to, in effect inviting it to re-appoint him with more powers and for a longer term. The government insists that it has no intention of using the assembly to usurp other institutions. Mr Morales may simply seek the right to run for re-election when his term ends in 2011. The second fear is that the assembly will undermine the autonomy that four provinces, including Beni, thought they had won in a referendum in July. The MAS intends to "neutralise the provinces" by devolving power to sub-provincial bodies, Walter Guevara, an expert on Congress, says.

Not for the first time, Bolivians are asking themselves if Mr Morales is in earnest. Perhaps, as with the nationalisation of energy in May, his radicalism conceals a willingness to negotiate (although energy talks have not progressed much). That would be in keeping with his background as the leader of a trade union (albeit of coca growers), says Gonzalo Chávez of the Catholic University in La Paz.

Yet the MAS is convinced that the rules it is overturning buttress the 500-year-old system of oppression that it is trying to destroy. The presidential spokesman, Alex Contreras, accused the opposition of engaging in a "racist struggle" with the MAS. A claimed "concession" proffered by the vice-president, Álvaro García Linera, does not look like one to the opposition: the final text of the constitution would require a two-thirds majority for approval. If it falls short, the new constitution would be submitted for a referendum, as it would be anyway. Mr Morales, still popular despite a 14-point drop in his approval rating since June, would probably secure a yes. Jorge Quiroga, leader of the opposition Podemos party, called the offer "ridiculous".

Bargaining, if it happens, is likely to begin after the opposition's show of strength. The regional strike, backed by provincial governors, pits "the state against the state" for the first time, says Mr Chávez. Mr Morales has called on the army to defend Bolivia's unity. Although there is talk of civil war, the greater threat of unrest may come from Mr Morales's own allies. Bus drivers and postal workers recently held strikes and Guarani Indians cut off gas to Argentina in protest against increased customs duties. Mr Morales called on social movements to defend the assembly in Sucre. He changed his mind, but several said they would march to the town anyway. Perhaps the lesson that Bolivians are learning under Mr

Morales is that constitutions do not matter.

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Chile's miners

A worrying precedent

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A generous pay deal for striking miners alarms Chile's copper producers

WITH the world price of copper, Chile's main export, running at over twice its average last year, the government's coffers are brimming with record revenues. So are the balance-sheets of its private mining companies. Chile is the world's biggest producer of copper and the country's inhabitants, with an average annual income of just $7,000, despite years of solid growth, are eager for their share of the windfall.

Large mines, including those of the state copper company Codelco, pay some of the country's highest wages, averaging $40,000. But, on August 7th, workers at Escondida, the world's largest copper mine, downed tools in a push for even higher pay. It did not help that, soon after the strike started, Escondida's controller, BHP Billiton, reported first-half profits for the mine of close to $3 billion, more than triple its profits in the same period last year and equal to almost 3% of Chile's GDP.

AFP

The mood may prove catching

After a 25-day strike that cost the company around $200m in lost profits, Escondida's miners returned to work on September 2nd, but only after obtaining a deal that, according to union officials, makes them the highest-paid in South America. Given that Chile's miners are already the best-off in the region, that may not be such a remarkable achievement. But it has set a precedent that is worrying other Chilean mining companies.

The deal includes not only a 5% real wage increase but also generous new education, health-care and housing benefits, an end-of-strike bonus worth an after-tax $4,600 and, in a new departure for Chile's mining industry, a bonus of $12,000 on account of high copper prices. “It sets a whole new standard for future wage negotiations throughout Chile's mining industry,” says César Pérez-Novoa, of Celfin Capital, a local investment bank. Wages within the industry tend to keep pretty much in line, he adds, because skilled mining labour is in short supply.

But the biggest concern is for Codelco, which produces a tenth of the world's copper. Before the end of the year, it faces negotiations at two of its main mines. Its production costs have been rising steeply and the government has indicated that it wants to hold down wage increases, a task that will now be doubly difficult.

Although Codelco's rising costs are partly due to a drop in ore grades, industry officials also blame the company itself for having shied away from the political costs of firing inefficient workers under the previous government. Whatever the reasons, Chileans would take a dim view of a generous strike-averting wage settlement. Getting a favourable deal out of a foreign company is fair play; getting it at the expense of a company they regard as theirs is quite another matter, particularly when the government has insisted that, for the sake of economic stability, Chile should save most of its copper windfall.

Codelco is not the only flank the government has to defend. The country's secondary-school children, who went on strike earlier this year calling for copper income to be used to improve state education, are still dissatisfied and, together with the teachers, are threatening further protests. Then there are the demands of state health-care workers, civil servants, employees of the state bank and of the national

television channel, all eager to get their share of the windfall.

President Michelle Bachelet helped open the floodgates when, during last year's election, she promised Chileans a greater stake in the benefits of economic growth. No one expected then that copper prices would reach their present heights. Ms Bachelet must be wondering whether they are not, after all, a mixed blessing.

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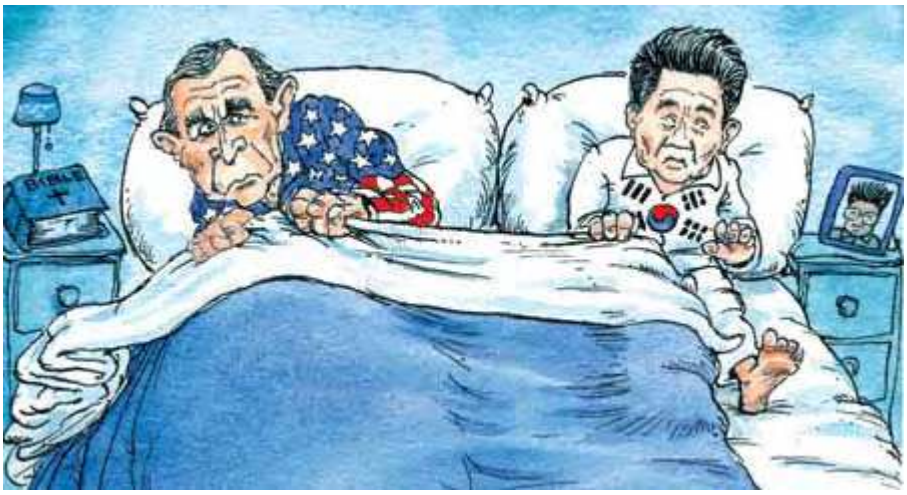
South Korea and America

Awkward bedfellows

Sep 7th 2006 | SEOUL
From The Economist print edition



Roh Moo-hyun goes to Washington, DC; the alliance with America is under strain

SOUTH Korea's alliance with America long seemed one of the bedrocks of an otherwise friable world. The United States, under UN auspices, came somewhat unexpectedly to the South's aid in 1950 after North Korea invaded. General Douglas MacArthur made a bold landing on Inchon beach, dividing North Korean forces that had by then overrun most of the South. A mutual defence treaty was signed in 1953, and American troops have not left South Korean soil since.

The alliance has not all been one-way. South Korea has helped its ally in conflicts elsewhere, in Vietnam and now in Iraq, where South Korean troops are the third-largest force, behind only the Americans and the British. Nor is it purely military. America has 2m ethnic Korean citizens. Relative to their population, South Koreans contribute its biggest contingent of foreign students. In South Korea, an American-inspired form of muscular Christianity has set down deep roots.

Yet the strains are showing, as President Roh Moo-hyun prepares to meet his counterpart, George Bush, on September 14th. Last year, to American fury, a group of young radicals tried to pull down MacArthur's statue in Inchon, claiming he was a war criminal. Mr Roh, along with much of his administration, cut his teeth opposing successive military dictators, and now that a loud and liberal democracy thrives in South Korea, America has not been wholly forgiven for having backed those military thugs in their day. In office, Mr Roh has turned to demagoguery to conceal his rapidly declining popularity. He treats two current wrangles between the allies—the intended relocation of America's huge military base, Yongsan, out of downtown Seoul, and a debate about whether America should concede operational control of allied forces in wartime—as issues of national sovereignty, as if the United States were an occupier.

In Washington, some of the more rabid voices argue that America should abandon its ally in the face of anti-American hostility and what they see as the South's appeasement of North Korea. That is still an extreme view. All the same, one senior American official makes clear that “if South Korea wants us out of here, we'll leave. They're pushing on an open door.” After all, America is trying to make its defence strategy more flexible. And it considers the North Korean threat to be more weapons of mass destruction and their proliferation than invasion of the South.

North Korea, indeed, is at the heart of the differences between the two allies. Though their alliance was formed to deter Northern aggression, perceptions of the North Korean threat started to diverge after South Korea's then president, Kim Dae-jung, launched a “sunshine policy” of engagement with the North

in 1998 (the policy has since changed in name, but not substance). Perceptions have grown wider apart since Kim Jong Il's regime fired seven missiles into the Sea of Japan on July 5th.

For most South Koreans, the overwhelming concern is to prevent war on the Korean peninsula or indeed a collapse of Kim Jong Il's regime—either (or both) would have devastating consequences for the South. A strange consequence of this concern is that left-leaning politicians, and even Mr Roh himself, who was a human-rights lawyer under military rule, discourage criticism of Mr Kim's human-rights abuses. The same politicians have encouraged the notion that the United States, not North Korea, is the biggest threat to peace. Mr Bush's visceral hatred of Mr Kim and the abominations he inflicts upon his country, financial sanctions imposed by America that have squeezed the regime's ready source of hard currency and a new set of sanctions the Bush administration is said to be preparing in the wake of the missile tests are all seen as evidence of America's intention to unseat Mr Kim, by force if necessary. At least, they are seen to be pushing him to lash out again.

Though South Korea cut some aid to the North after the missile launchings and joined the rest of the world in a UN resolution that condemned them, senior officials in Seoul now emphasise the other part of the resolution, which was to use every diplomatic means to push North Korea back to the “six-party” talks (involving China, the United States, South Korea, Japan and Russia) meant to get it to give up its nuclear-weapons programmes. Diplomacy, they say, has become particularly urgent given clues that Mr Kim might soon fire more missiles or test a nuclear bomb.

America shares their urgency: this week, Christopher Hill, Mr Bush's chief diplomat on North Korea, visited Tokyo and Beijing to stress the need for North Korea to negotiate. As *The Economist* went to press, rumours suggested Mr Kim may have boarded his mobile palace of a train, to meet Chinese leaders in Beijing. Yet China, which is increasingly disgruntled with Mr Kim, has become less able to influence him. Isolated and beset by the consequences of devastating floods at home, Mr Kim is harder than ever to predict.

America and South Korea would no doubt be brought closer together in the event of a North Korean nuclear test. Still, both acknowledge the need for their alliance to be based in non-military ways. At their summit, Mr Roh plans to reassure Mr Bush of his commitment to pushing through a free-trade agreement (FTA) between them—the third round of talks on this were under way this week in Seattle. Though the timing is tight—a deal must be struck well before Mr Bush's “fast-track” negotiating authority expires next June—the South Korean government wants a deal. One South Korean diplomat says an FTA would be “a turning-point in our relationship, the most important step since the mutual-defence treaty”. Mr Bush also sees how deeper economic ties could soothe a scratchy alliance: the FTA would be America's biggest since NAFTA, the North American Free-Trade Agreement, in 1994. Mr Roh and Mr Bush may not be natural bedfellows. But in Washington they will probably bounce on the showroom mattress together.

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China

Looting the aged

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A corruption scandal in Shanghai makes political mileage for Hu Jintao

EVEN if they were well managed, China's social-security funds would find themselves hugely in the red in a few years' time, as a bulge of retired workers start demanding pensions. But recent allegations of massive corruption in the management of Shanghai's fund, involving the illicit use of $400m, reveal just how much officials can worsen the problem.

For a city that is trying to promote itself as China's sophisticated financial capital, the scandal is a serious blow. For President Hu Jintao, eager to display his authority in the run-up to an important Communist Party conclave next year, it may be beneficial. In his handling of the allegations, he has shown a willingness to crack down on waywardness in the provinces, which have been frustrating the central leadership's efforts to rein in the economy. As a particularly powerful enclave, which enjoys the status of a province, and is reputed—though evidence for this is debatable—to be a bastion of Mr Hu's political rivals, Shanghai was a perfect case for Mr Hu to act upon. More than 100 officials have been dispatched from Beijing to investigate the alleged graft, according to the government news agency, Xinhua.

China's official media have described it as Shanghai's biggest financial scandal in many years. It allegedly involves the misappropriation of one-third of the city's $1.2 billion social-security fund. Since the scandal was uncovered in July, the director of Shanghai's Municipal Labour and Social Security Bureau, Zhu Junyi, and a district government chief, Qin Yu, have been sacked. Mr Qin happens to be a former top aide of the city's party chief, Chen Liangyu, who is also a member of the ruling Politburo. Several prominent people in the business world are being questioned. On September 5th Chinese media said Wu Minglie, the chairman of one of Shanghai's biggest property developers, New Huangpu Group, had been detained.

According to Chinese press reports, the fund lent money that was used to invest in risky toll-road and real-estate projects. In theory, social-security funds should mainly be invested in treasury bonds and bank deposits, which yield very low returns. The government has been cautious about allowing funds to be put into stocks because China's capital markets are still rather rough and ready. It also fears that any loosening of controls could encourage abuses by local officials. But a lack of transparency in the management of funds, combined with pressures to make up pension deficits, still result in frequent wrongdoing. Xinhua quoted an official as saying that 16 billion yuan ($2 billion) had been embezzled from the funds since 1998.

Shanghai's case is the latest in a series of big corruption stories reported by the Chinese media in recent weeks. A deputy mayor of Beijing, a chief prosecutor in nearby Tianjin, a deputy commander of the navy and a deputy governor are among those who have been arrested. But the scandal in Shanghai has aroused particular attention because of widespread public concerns about meagre pensions and unemployment benefits as well as the fast-rising cost of health care. A commentary on one official newspaper website spoke of a “crisis of confidence” in the social-security system generated by the Shanghai case. The famous words of Lord Acton, a 19th-century historian, were quoted in another: “Absolute power corrupts absolutely.”

The Chinese media say government auditors are now examining accounts at social-security departments across the country. Such checks are conducted regularly, but this time they are being carried out by officials from other regions, in an apparent effort to minimise the possibility of cover-ups.

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Japan

The imperial imperative

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It's a boy, at last

Reuters

Saluting the son

THE news on September 6th that a baby boy had been born into Japan's imperial household for the first time in over 40 years was greeted with relief by a government that had just avoided a constitutional crisis—and with joy by demographers and shopkeepers. The Dai-Ichi Life Institute predicts a mini baby-boom that will produce a bumper crop of potential wives for the little chap, and a welcome ¥150 billion ($1.3 billion) boost to the economy.

The as yet unnamed boy, born to Princess Kiko, wife of Emperor Akihito's second son, is third in line to the throne, after the crown prince, 46-year-old Naruhito, and his own father, Prince Akishino, Naruhito's younger brother. The Chrysanthemum Throne is remarkable on several counts. Not only, at 2,600 years, is Japan's easily the world's oldest monarchy, but it also boasts an unbroken male lineage (though eight women have over time stood in as caretaker empresses). What is more, historians of the Imperial Household Agency (IHA) can affirm, the lineage is descended from Amaterasu, the sun goddess born not by Caesarean section, as was the latest little tyke, but from an eye of the god Izanagi.

Yet the boy can expect little of the fun—snowboarding at Verbier, lines of cocaine, teenage romps with first cousins—enjoyed by European royals. The imperial family's treatment would anywhere else count as cruel and unusual punishment. The impenetrable IHA has almost absolute power over the imperial family. The 42-year-old crown princess, Masako, educated at Harvard and Oxford and formerly a high-flyer at the Foreign Ministry, was confined like a factory-farmed animal, forbidden from taking foreign trips with her husband lest this get in the way of reproduction. Though she gave birth to a girl, now four, the pressure from the IHA to produce a male heir contributed to a nervous breakdown, from which she has not fully recovered. Strains between her husband and Prince Akishino seemed to have arisen when Prince Naruhito hinted in public at his anger with the IHA. In other words, Princess Kiko, who is 39, with daughters who are 14 and 11, may have felt pressure to lie back and think of Japan. At any rate, the IHA took no risks; she was whisked to hospital three weeks before the child was due.

The birth comes as a relief to Shinzo Abe, who is expected to take over from Junichiro Koizumi as prime minister at the end of this month. Earlier this year Mr Abe, as the government's chief cabinet secretary, pushed through a bill that allowed for female succession. Though championed by Mr Koizumi, it was anathema to Mr Abe, whose conservative credentials risked being undermined. But then news of Princess Kiko's pregnancy leaked out, and the bill was hurriedly shelved, at least for now.

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About sponsorship

Afghanistan

Taking on the Taliban

Sep 7th 2006 | KABUL
From The Economist print edition

NATO fights a battle against extremists, and plans subtler strategies

ON SEPTEMBER 2nd, Canadian troops serving under NATO in Afghanistan, supported by their British, Dutch and American allies and Afghan troops, launched the alliance's biggest-ever land attack, against 1,000 Taliban fighters in Panjwayi district, southern Kandahar province. In several days of pitched battle, over 300 militants and five Canadians were reported killed, including one by American friendly fire. In next-door Helmand province and in Kabul, over roughly the same period, five British soldiers were killed by Taliban attacks and 14 in a plane crash. Among the 40,000 Western troops in Afghanistan, under NATO or in a separate American-led coalition, the British are more likely to be killed than they would be in Iraq, and the Americans slightly less likely. On September 7th, NATO's commander, General James Jones, called for several hundred reinforcements.

As in Iraq, America's declaration of victory against Afghanistan's old regime was premature. Chased from Kabul, the Taliban's black-turbaned Pushtun fighters returned to their villages in southern Afghanistan, or to Pakistan's autonomous Pushtun tribal region. They held their grip, by killing aid workers and employees of the government of President Hamid Karzai. Despite unrelentingly upbeat assessments by the American troops that occasionally slaughtered them, year on year, the extremist group has emerged as an increasingly capable guerrilla force. Ruling through intimidation and occasionally willing support, its fighters hold much of southern Afghanistan.

The weakness of the government is one reason for this. The absence of enough foreign troops to provide more than a modicum of security in its stead is another: before 8,000 NATO troops took charge of securing the four southern provinces on July 31st, America had one infantry battalion there. Afghanistan's opium production, in which the Taliban have a stake, is surging too. On September 2nd, the UN drugs agency announced a 49% increase in this year's yield. Helmand province, where over 3,000 British NATO troops are based, saw an increase of 162% in cultivation. In the north of the province, where the fighting is fiercest, in April and May, the scent of pink poppies carried to helicopters flying thousands of feet above.

Western officials say the Taliban are not popular in southern Afghanistan, and they are probably right. But that may change. Pushtun tribes who feel passed over for government patronage, including the Noorzai and Achakzai, have hired out fighters to the Taliban in Panjwayi. Virtually all Afghans are angered by America's often heavy-handed tactics. A senior minister says: “Every time there is a bombardment in the south, it affects the credibility of the Afghan government.” What is more, as Iraq has shown, only a small part of the population need support insurgents, so long as the majority is fearful

and ambivalent, for their campaign to be potent.

To win over the population, the NATO force was designed to provide safe circumstances for a massive injection of aid and development spending in southern Afghanistan, but in the current violence little of this has been possible. British troops in Helmand, who have £20m ($36m) to spend in the province this year, have built the odd bridge and market-stall around the main town, Lashkar Gah, but nothing in the contested north. NATO chiefs hope to quell the Taliban until the onset of snowy winter, forcing many fighters to retire to their rear-bases in Pakistan, and then launch a massive aid splurge.

Sensible as that would be—and an improvement on the Americans' more threadbare and belligerent stewardship—it will not soon win the fight against the Taliban, nor perhaps in the three years that Britain has committed its troops to Helmand. The chief reason is that the Taliban are based in Pakistan, where they buy arms, deal drugs and collect cash sent by their foreign admirers. Under American pressure, in 2003, General Pervez Musharraf, Pakistan's leader, sent 80,000 troops into the northern tribal area, partly to try to seal the border. Whether because the task was beyond them, or, as many in Afghanistan believe, because Pakistan was unwilling to lose potential leverage over its neighbour, they failed—and in the process 800 Pakistanis have been killed by militants who call themselves the Pakistan Taliban.

On September 5th, the government admitted this policy's defeat, by signing a deal with the militants that left them in control of the region in exchange for a promise not to attack Pakistan's troops or raid Afghanistan. Mr Musharraf then went to Kabul, where he promised to fight alongside Mr Karzai against extremism. Few in Kabul quite believed him. But Mr Musharraf's policy towards the Pakistan Taliban may nonetheless offer lessons to Afghanistan and its foreign allies. As throughout Afghan history, if insurgents cannot be defeated militarily, they will have to be bought.

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Cambodia

Dangerous liaisons

Sep 7th 2006 | BANGKOK
From The Economist print edition

Bans on free speech and free love

ADULTERERS in Cambodia could get up to a year in jail, after the prime minister, Hun Sen, used his big majority to push a bill banning extra-marital affairs through the lower house of parliament on September 1st. The opposition's howls of outrage were louder than they had been two days earlier, when another, more worrying measure was rushed through, curtailing parliamentarians' right to speak without fear of prosecution. That was possible because the restriction on lawmakers' immunity was wrapped in a bill granting them pensions and other perks, which proved irresistible even to some in the opposition.

In a country where many married men keep mistresses, enforcing marital fidelity seems hopelessly impractical. Under Cambodia's murderous Khmer Rouge regime in the 1970s, adulterers were executed—but even that discouraged the practice only briefly. One possibility is that Mr Hun Sen is seeking to discipline his Cambodian People's Party (CPP) and its coalition partner, FUNCINPEC. He is said to have become irritated at ministers arriving at official functions with their floozies instead of their wives.

The president of the lower house, Heng Samrin, a CPP man, argued that the new law would cut Cambodia's rampant corruption, since “if a government official has many wives or mistresses, he will become greedy for the state's money.” Intriguingly, Mr Hun Sen's information minister, Khieu Kanharith, normally a faithful parrot of the official line, said the adultery ban was going too far: he told a local newspaper that “a little extra-marital activity can be a beneficial stress-reliever”.

However, the adultery law was probably aimed specifically at undermining Prince Norodom Ranariddh, FUNCINPEC's leader, who is often seen accompanied by a dancer, rather than his wife. The law was passed shortly after the prince returned to Cambodia after five months' absence. By drawing attention to his private life, the government may hope to turn older, rural voters—FUNCINPEC's main supporters—against him. Mr Hun Sen no longer needs his coalition partner, because the constitution was changed earlier this year (at the opposition's request, oddly), so that governments no longer need a two-thirds majority in parliament to remain in office, just a simple majority. But it makes sense to damage the prince's reputation, so he would be less useful to the opposition, were he to join them.

Whatever the motives behind the adultery law, it is unlikely to be applied fairly, like most Cambodian laws. Nor is the other hastily-passed measure, stripping parliamentarians of their immunity if they say anything deemed to damage “an individual 's dignity, public order, social customs or national security”. This contradicts the constitution, which says lawmakers may not be prosecuted for opinions aired while doing their duty. The opposition is appealing to the Constitutional Council but, like other institutions, how independent it is from the CPP is unclear.

Last year, the main opposition leader, Sam Rainsy, fled into exile after lawmakers voted to suspend his immunity so he could be prosecuted for accusing the prime minister of orchestrating violent assaults against his opponents. In February, Mr Sam Rainsy returned, having agreed to recant his allegations and be pardoned.

Since then, the opposition has tamed its habit of making disturbing but unsubstantiated claims. But the government now faces allegations of officially-sanctioned murder aired by a former police chief, Heng Pov, who has gone on the run after being charged with killing a judge. He claims he is being framed for refusing orders to kill from Hok Lundy, the prime minister's feared internal-security chief. The fugitive policeman was expelled from Singapore and may be in Malaysia. Whatever becomes of him, the chances of his allegations being properly investigated seem rather slim.

Killings and disappearances of anti-government figures seem to have stopped in the past year or two,

notes a diplomat in Phnom Penh. That is some sort of progress. Mr Hun Sen now seems to have little need for such harsh tactics. His new laws make it easier for him to cow his opponents, actual or potential, by threatening them with prosecution—either for their loose tongues or their loose living.

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About sponsorship

India

Tigers in the twilight

Sep 7th 2006 | DELHI
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New estimates of India's tiger population are depressing

FOR over a decade, India's conservationists have warned of a steep and officially-denied decline in the country's Bengal tigers, which are poached for their valuable pelts and also, for use in Chinese medicine, for their bones, teeth and penises. The government has insisted the tiger population is stable at around 3,500—down from over 4,400 in 1989, but better than 1,800 in 1973, when Indira Gandhi, then prime minister, founded a conservation authority called Project Tiger to save them. But the latest research is hard to refute: estimates by conservationists, and some officials, put the population at 1,200-1,500.

No Indian leader since Mrs Gandhi has shown much interest in protecting the great felines, including the current head of her Congress Party, her daughter-in-law, Sonia Gandhi. She is keener to woo the tribal folk encroaching on the tigers' shrinking forests. Hence the Congress government is toying with proposals for a new Tribal Bill that would give land rights to forest dwellers. That would give poachers even readier access to their prey. Also, last month leftist parties insisted on changes to new wildlife legislation that weakened a proposed new anti-poaching unit and conservation watchdog, the National Tiger Conservation Authority, that had been intended to be more powerful than Project Tiger. Valmik Thapar, a conservationist, says India will have 300 to 400 tigers in four years.

Frail hopes rest on a meeting of the Convention on International Trade in Endangered Species of Wild Fauna and Flora in Geneva next month, at which America may perhaps argue for a ban on trade in endangered species where tigers are not protected. That would hurt India's exports of rare plants. But it might help its horribly endangered tigers.

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Gaza

Death and disintegration all round

Sep 7th 2006 | BEIT HANOUN, GAZA STRIP
From The Economist print edition

The Gaza Strip is more chaotic than ever, with greater risks to Israel too

AFTER ten weeks of Israeli military incursions into Gaza, the difference is visible. Vast drifts of stinking rubbish sit on street corners. Many shops are shuttered; the markets merely tick over; the traffic jams are gone. From time to time you encounter the cascaded ruins of a bombed bridge or building, or a house with its side punched out by a tank. With Gaza's power plant still dead from an Israeli airstrike, the UN estimates that families in urban areas get six to eight hours of (imported) electricity and two to three hours of running water a day; tempers fray in the midst of a sweltering summer. In the morning a convoy of ambulances screams past, ferrying the victims of the latest Israeli raid on the eastern Shijayiya district of the city. Aid agencies record steadily rising food prices, rates of disease and psychological stress.

Such are the prices that Gaza's 1.4m inhabitants are paying for electing Hamas, in January, to run the Palestinian Authority (PA), which has been under economic boycott for the Islamist movement's stubborn refusal to recognise Israel formally, and for the actions of the militants who kidnapped Gilad Shalit, an Israeli soldier, in June. The militants continue to fire into Israel a dribble of home-made rockets, known as Qassams. These have not killed anyone for 13 months, but Israel's military operation, code-named “Summer Rains”, has so far killed some 230 Gazans, including over 60 children—with no noticeable impact on the militants' activities.

As a result, popular opposition to Hamas is growing. Around a third of the population relies on breadwinners paid by the PA, who have gone without most of their salary for the past six months because of the boycott. On September 2nd, PA workers began a series of massive strikes. Schools have closed; hospitals see only emergency cases. Hamas-affiliated gunmen have been threatening and sometimes beating striking workers, while goons from the rival Fatah party, long led by the late Yasser Arafat, which lost power to Hamas in January, have used similar tactics to enforce the stoppages.

Hamas supporters accuse Fatah of engineering the strikes, but that is only partly true; after the months of pressure, many Palestinians are genuinely torn between standing up for their democratically elected government and saving their own lives and livelihoods. “A government should defend the interests of its people,” says one teacher, who describes himself as apolitical. “If it can't do that, whatever the reason, it should step down.” His friend, a self-employed Hamas supporter, retorts angrily: “Hamas was never

given a chance. The whole world is trying to crush it. Israel has arrested its leaders. Fatah is undermining it."

It may all look like proof that the world's boycott of Hamas, intended to make it change its spots or leave power, is working. Talks between Hamas and Fatah on a coalition government, which were on ice for several weeks, are under way again. But the PA's disintegration and the breakdown of Gaza's social fabric are making it hard for any authority to impose order.

According to an official watchdog, the Palestinian Independent Commission for Citizens' Rights, violence between Palestinians—from personal disputes to the execution of collaborators with Israel—killed a total of 400 people in 2003, 2004 and 2005. This year, up to August 29th, there were 199 deaths, 142 of them in Gaza. Some of the violence is factional fighting between Hamas and Fatah, or among Fatah's increasingly divided sub-factions. But violent clan disputes are up too.

A handful of large clans, numbering up to tens of thousands of people, and a sprinkling of smaller ones hold sway in various parts of Gaza. A clan rarely cleaves to one political party, so as political power weakens, people are turning to their clans for protection. The past months have seen continuous fighting between several of the big ones. Of the Gaza deaths this year, 57 were in Hamas-Fatah clashes and at least 37 were due to family feuds.

They can carry on for months. Ahmad Saba, a doctor and a member of the powerful Kafarneh clan in Beit Hanoun, in the northern Gaza Strip, says he (and, he estimates, some 1,200 of his kinsmen) has been unable to go to work in Gaza City for three months because of a feud between the Kafarnehs and the city's Dughmush clan. His nephew, also called Ahmad, says he has been taking a pistol with him to his university exams. The Kafarnehs' previous dispute, with Beit Hanoun's rival Masri clan, started after a minor collision between a car and a donkey cart and ended up claiming eight lives.

A greater availability of weapons has increased the violence: disputes once settled by a beating now turn into killing sprees. As the PA disintegrates, law and order have broken down, unemployment has soared, and lots of bored, armed and uncontrolled young men roam the streets.

In addition, clan heads themselves have less authority than they used to. When the PA was created in 1995, Yasser Arafat, the then Palestinian leader, who had returned with his supporters from years of exile, began to interfere with the traditional system of choosing tribal heads, so as to promote his own loyalists. But such leaders had less influence in the clans. Now that their political clout is waning too, there is nobody to call the shots. Even if senior family members call for a ceasefire, a rebellious youth with a gun can break it in a split second.

No one in charge

The chaos in Gaza has wider consequences. The armed youngsters are easy recruits for the militant factions which launch attacks, including terrorist ones, against Israel. The factions themselves have been fragmenting, so that the Fatah and Hamas leaderships are increasingly losing control of them. Ghazi Hamad, the Hamas government spokesman, effectively admitted as much last month by publishing an article that pleaded with the factions to "give Gaza the opportunity to breathe and live for a short while."

Hamas and Fatah worsened this mess in their struggle for power over the PA. So far, efforts by the European Union and others to find a way to drag Hamas into negotiations with Israel, by getting the Islamists to recognise Israel and meet other preconditions, have continued to fail. The diplomatic stalemate is fuelling frustration and bitterness all round.

If anyone in the Israeli government sees the Gaza policy as a failure, however, they are, for the moment, keeping quiet. The government is in crisis-management mode: keeping its fragile coalition of parties together while dealing with a wave of corruption scandals, a series of inquiries into the conduct of its war against Hizbullah in Lebanon and talks over its captured soldiers. Shimon Peres, the deputy prime minister, this week denied reports that a deal to swap Corporal Shalit for several hundred Palestinian prisoners was in the making, but said that if and when he was freed, Ehud Olmert, the prime minister, would meet Mahmoud Abbas, the Palestinian president, soon after. However, the two men will have little to talk about unless Mr Abbas is in charge of a PA that can impose order. For the moment, both his and the PA's authority are diminishing steadily; everyone is losing.

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Qatar

A bouncy bantam

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A Gulf state asserts itself in the world

MOST small countries find it wise to keep their heads down in world affairs. Qatar is small, a pancake-flat peninsula less than half the size of Belgium. Barely a quarter of its 750,000 people are citizens, the rest being foreign workers and their families. But the bantam-sized emirate has a habit of punching above its weight, and in several directions at once.

Who's contributing?
UNIFIL troops in Lebanon*

France	2,208	India	673
Italy	2,153	Ghana	648
Indonesia	c.1,000	Netherlands	500
Malaysia	c.1,000	Qatar	300
Spain	1,000	Poland	214
Turkey	c.1,000	China	187

Source: UNIFIL
*Includes troops already in Lebanon and those pledged or expected

This week, for instance, Qatar has bolstered the UN's peacekeeping efforts in Lebanon with a pledge of up to 300 troops. In doing so it broke ranks with other Arab states that remain wary of interposing Muslim bodies between Israel and Lebanon's Hizbullah guerrillas. That has made it easier for other Muslim countries, such as Indonesia and Turkey, to begin joining the force, which the UN wants to be 15,000-strong, some half of it from Europe. At the same time, Qatar became the first Arab country to heed Lebanese pleas to break Israel's blockade (due to end this week), by launching daily flights to Beirut in defiance of Israel's demands that air traffic receive its prior clearance.

One reason Qatar can challenge Israel is that it, unlike most Arab countries, maintains discreet, low-level relations with the Jewish state. It is also a crucial ally for Israel's main patron, America. It hosts a large base and regional command centre for the US Air Force; the invasion of Iraq was managed from here, and Qatar-based B-1 bombers continue to fly missions over Afghanistan. The emirate has also generously helped American causes. The $100m it has so far spent on relief for victims of Hurricane Katrina includes a $17.5m grant to New Orleans's Xavier University, which serves mostly black Americans.

Yet Qatar is hardly beholden to the superpower. It has the friendliest relations of any other Arab country with America's most outspoken foes in the region, Syria and Iran. Since taking up a two-year rotating seat at the UN Security Council in January, Qatar has vocally dissented from such American policies as trying to curb Iran's nuclear ambitions, or sending UN peacekeepers to Sudan's Darfur region against the wishes of the government in Khartoum. Sheikh Hamad bin Khalifa al-Thani, the country's emir, is heading to next week's summit of non-aligned leaders in Cuba to hobnob with such American bogeymen as Fidel Castro and Venezuela's Hugo Chávez.

Qatar's ruler also happens to bankroll the al-Jazeera satellite channel, which American officials often accuse of cheering on their enemies. Al-Jazeera's daring coverage has not just angered Americans. Iran, Iraq, Israel and Saudi Arabia, among other countries, have all curtailed the activities of its reporters for different reasons. This may explain why al-Jazeera consistently has the largest number of viewers in the Arab world.

It helps, of course, that Qatar has money, and plenty of it. Its territorial waters include the world's third-largest reserve of natural gas. Energy exports have pushed the emirate's GDP per head to more than $40,000, on a par with Europe's richest countries. Huge investments in both oil and gas mean that, by the next decade, Qatar could be producing the equivalent of 5m barrels of oil a day. That is half Saudi Arabia's daily output, but would be comfortably shared by a population that numbers less than 1/25th of the neighbouring kingdom's.

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South Africa

Shades of black

Sep 7th 2006 | JOHANNESBURG
From The Economist print edition

Some are considered more “previously disadvantaged” than others

Alamy

The hoped-for rainbow

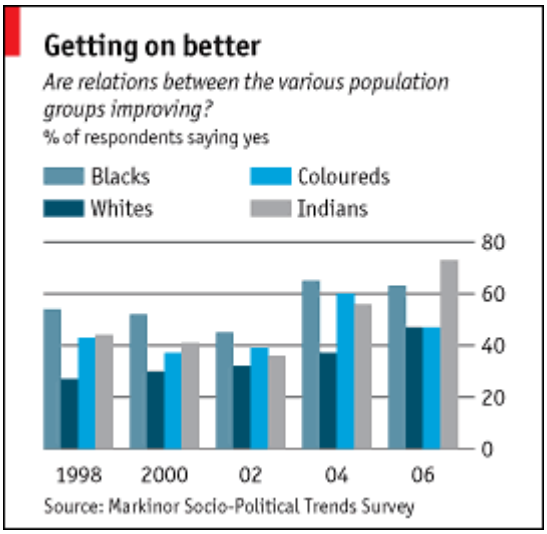
ON THE face of it, race still permeates everything in South Africa. Take television. A show called “Idols”, which grooms wannabe pop stars, got into trouble when a black judge criticised a white contestant using a Zulu expression that the contestant did not understand. Irate fans accused the judge of being a racist. More recently, a black model voted out of the “Strictly Come Dancing” show, in which celebrities display their dubious ballroom-dancing talents, unleashed accusations of racism when she complained that her “own people” did not vote for her.

At the other end of the spectrum, whites are often accused of resisting change. Yet there is also increasing evidence despite the lingering sensitivities that, 12 years after the end of apartheid, race may not be important as it seems. According to a recent survey, 60% of South Africans believe that race relations are actually improving. Even more strikingly, when Markinor, a polling company, asked people about the most important problems that the government should tackle, joblessness, crime and HIV/AIDS topped the list; racism and affirmative action did not even appear. This suggests that the faultlines may be changing within South African politics and that, insofar as race does come up, it is often used as a proxy for other problems, such as poverty or frustration over the slow pace at which wealth is being redistributed.

Ironically, however, some fear that it is now African National Congress (ANC) politicians in government, stout opponents of apartheid that they were, who are doing as much as anyone to perpetuate the very apartheid-era classifications that the country is trying to move beyond. Take the party's flagship policy to

try and redress the gross economic inequalities inherited from apartheid, the black economic empowerment programme. Companies that expect to get even minor contracts from the government have to include more of the “previously disadvantaged”, understood to mean primarily blacks, Indians and coloureds (as mixed-race people are still known), among their shareholders and employees, as well as in their boardrooms.

The policy has been criticised for creating costly distortions rather than new jobs and for lining the pockets of a small elite of well-connected bankers and lawyers. Allan Boesak, a former chairman of the Western Cape's ANC branch, laments that the ruling party has brought back the language of racial division, a claim often made by the Democratic Alliance, an opposition party.



A recent court ruling confirming a decision by Eskom, the country's main electricity company, to favour a black applicant over a more experienced coloured employee for a job, on the grounds that he was more disadvantaged under the previous regime, has also raised tensions. Such incidents feed the suspicion among some coloureds that they have gone from being not white enough under apartheid to being not black enough today. Coloured residents of Ravensmead, a Cape Town township, protested last year against the city's plans to build houses for the black dwellers of a squatter camp that burnt down, saying that they had been there longer and should be first in line.

Two years ago the media adviser to the former ANC mayor of Cape Town argued on his website that blacks were superior to coloureds, who risk dying “of a drunken death”. He was eventually fired, but the incident created ill-feeling. The battle over the ANC leadership in the Western Cape province last year, which Ebrahim Rasool, the coloured premier, lost to James Ngculu, raised questions over whether race had been a factor in the result.

Rising immigration also complicates the picture. Since the end of apartheid, the continent's richest country has been a magnet for Africans fleeing war, persecution or poverty. Some 3m refugees from Zimbabwe alone may now live in South Africa. Perceptions that foreigners are stealing jobs and fuelling crime have risen. A recent report from Human Rights Watch, an international lobby group, documents abuse of illegal Zimbabwean migrants not only by employers but also by the (mainly black) police. Somali shopkeepers have been targeted and shot.

The South African Institute of Race Relations, a think-tank, argues that race should no longer be a proxy for “disadvantage” and that this should instead be defined by income. In the long run, the ability of South Africans to get over their enduring tendency to think in colours will depend largely on making swathes of people less poor. Over 25% of the population (or up to 40%, depending on the definition) are unemployed, compared with 20% in 1994. Not surprisingly, the euphoria of the first few years of democracy has given way to mounting impatience.

Some of the country's politicians at times try to duck these and other issues by resorting to the lexicon of race. When Desmond Tutu, a Nobel Prize-winning former archbishop, questioned President Thabo Mbeki's leadership style, the latter accused him of being “an icon of the white people”. The Democratic Alliance has also been accused of playing on racial tensions in the Western Cape to boost itself among the province's coloured people. Still, voters in general may be tiring of race as an electoral issue.

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Uganda and Sudan

Coming in from the jungle, maybe

Sep 7th 2006 | NAIROBI
From The Economist print edition

Hopeful signs of an end to one of Africa's longest and bloodiest conflicts

WHEN the south Sudan government started talking to Uganda's rebel Lord's Resistance Army (LRA) earlier this year, a chorus of aid workers, UN officials and Western diplomats said that the rebel commanders should be arrested for war crimes, not invited to chat. But now that they have actually agreed to stop fighting and turn themselves in by September 19th, under the supervision of south Sudanese troops, the mediators could be forgiven for feeling a little smug. There have, of course, been false dawns before. Several times talks have collapsed at the last minute. But there are reasons to believe that this time things may turn out better.

For the first time since he launched his uprising in northern Uganda 19 years ago, the LRA leader, Joseph Kony, has emerged from his hideouts to meet mediators and reporters. Indicted along with four of his commanders for war crimes by the International Criminal Court (ICC) at The Hague, he has been deserted by his former backers in Sudan's central government in Khartoum. Meanwhile, the government of south Sudan, which has become increasingly autonomous under a peace deal signed last year to end a 30-year-long civil war between Sudan's Arab-run north and black-African south, has been keen to help establish peace along its borders with Uganda and Congo. So Mr Kony looks like a man searching for a way out. Underlining the risks he faces, Uganda's army said it killed one of his indicted aides last month.

Uganda's president, Yoweri Museveni, also now needs to end the conflict. In the past it has often looked like a low priority for him, mainly hurting the north, where he has few supporters among the Acholi people who predominate there. But his reputation as one of Africa's more deserving beneficiaries of foreign aid, which provides about half his government's budget, has worsened in the past few years, especially since he changed the constitution to let himself run for a third term in the presidential election in February. So a peacemaking success would be handy. Besides, Uganda is hosting a meeting of the Commonwealth's heads of government next year (see article) and Mr Museveni would hate the war to spoil the party.

There are hopeful signs. Small groups of LRA rebels are on the move, though they have yet actually to arrive at the remote assembly areas near the Sudanese and Congolese borders. Mediators assume that if

the rebels do gather it will be practically impossible for them to disperse, since they will, in effect, be under the guard of south Sudan, whose vice-president, Riek Machar, has led the drive for peace. They would then be disarmed and sent home. Details of a final peace agreement could then be worked out.

Uganda's government, for its part, is talking about dismantling the refugee camps set up a decade ago to shelter people and prevent the rebels blending in with the scattered rural population. They now house 1.7m miserable people; more are dying in the camps through disease than the LRA ever managed to kill directly.

The big question is whether Mr Kony himself and the other three surviving commanders actually turn up at an assembly point. After years of abducting children and massacring civilians, they are afraid of what might happen to them. As countries that have signed the terms of the international court, Uganda and Congo have a legal obligation to execute the ICC's warrants; Sudan has formally pledged to do so.

But it is Mr Museveni's promise to shield them from the court that has flushed them out of the jungle. He reaffirmed that promise last week, adding with his usual bluntness: “That should be a big relief for him, because Kony should be hanged for what he has done.” Vincent Otti, the LRA's deputy leader, insisted this week that there would be no peace deal unless the indictments were dropped altogether.

Opinion in northern Uganda is divided over whether Mr Kony should be tried by the ICC or, alternatively, endure some of the traditional reconciliation practices championed by the region's Acholi elders. They want to revive rituals, such as stepping on eggs or drinking herbal brews, to heal divisions. The ICC has failed to win widespread support in the north. As it has also now been repudiated by Mr Museveni, who referred Mr Kony to the ICC in the first place three years ago, the prosecutors are looking increasingly impotent. People in northern Uganda have already been waving white flags in hopes of peace. But until Mr Kony hands himself in, few will dare to believe that the war is over.

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Uganda

Not fit for a queen

Sep 7th 2006 | KAMPALA
From The Economist print edition

The end of the road for Kampala's signature taxis

LONDON has black cabs, New York its yellow ones. Bangkok has tuk-tuks and Hanoi has rickshaws. In Kampala, the boda-boda motorcycle taxi is the Ugandan capital's defining symbol. In the 1960s, entrepreneurial cyclists found that travellers would pay a few shillings to have themselves and their goods transported across the no-man's-land between the borders of Uganda and Kenya. From border to border, the boda-boda was born.

Please, your majesty, let us drive you around

Since then the bikes have become motorised. For the locals, rates are fixed, but foreigners can expect to bargain hard and still pay far too much. But it is worth it: weaving between cars, dodging potholes and riding along the pavement to avoid Kampala's jams is as exhilarating as any fairground ride. And you arrive on time, if a bit dusty.

But now boda-bodas are under threat—from the Commonwealth. To prepare for hosting next year's summit of the organisation in Uganda, the capital is having a makeover. A senior foreign-ministry official boasts that $300m has already been invested in ventures to spruce things up. Pitted roads are being relaid; smart new hotels will house an expected influx of 5,000 delegates.

But the boda-boda is likely to be a casualty of this vast civic spring-clean. For the government says they have become a “menace and a problem to the city traffic” and wants them off the streets by January. The drivers—wont to lounge in packs on street corners, attired in a random assortment of jackets and helmets, dozing between fares and whistling at girls—say the government thinks they are too unkempt and anarchic for the image that Uganda is hoping to project.

Bad news for Kampala's estimated 10,500 boda-boda drivers. They can earn up to $5 a day, whereas most rural workers earn less than a fifth of that. “This Commonwealth will throw us out,” says one. “Please, you will pray for us!” he shouts as he speeds away, black smoke spewing from the exhaust of his invaluable bike of burden.

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Russian health and demography

A sickness of the soul

Sep 7th 2006 | IRKUTSK
From The Economist print edition

Russia's demographic outlook is dire—even before it feels the full impact of AIDS

OLGA wants her first baby, just delivered in the Siberian city of Irkutsk, to have two siblings. Whether he will get them depends on whether she and her husband can afford them. Yes, she says, President Vladimir Putin's new plan to boost child support, and pay a lump sum for second babies, might help.

Mr Putin's aim is to boost Russia's birth rate, which plummeted after the late Soviet period and has stabilised well below replacement level. His ultimate goal is to arrest and reverse Russia's headlong population decline. Despite a large influx of ethnic Russians from elsewhere, the population has fallen by 6m since the Soviet Union collapsed, to 143m. It is falling still, by around 700,000 a year. There may be fewer than 100m Russians left by 2050.

Olga's interest notwithstanding, Mr Putin's plan is unlikely to halt the slide. That is partly because the trend is an old and accelerating one. Money worries do not entirely explain it: some of the poorest groups in Russia (most of them Muslim) are the most fertile. In a way, wealth is even a contributor: Western lifestyles and expectations have spread into Russia and, by European standards, the birth rate is low but not outlandishly so. Anatoly Vishnevsky, of the Russian Academy of Sciences, points out that, elsewhere, maternity bribes have produced a short-term baby rush but little long-term effect.

But the bigger reason for scepticism is that Russia's truly startling demographic problem is its amazing death rate, which has leapt as fertility has crashed, and is now more than twice western Europe's. Most of the leap is accounted for by working-age men. At less than 59, male life expectancy has collapsed in a way otherwise found only in sub-Saharan Africa. It is around five years lower than it was 40 years ago, and 13 years lower than that of Russian women—one of the biggest gaps in the world. Male life expectancy in Irkutsk (not the country's lowest) is just 53.

Russia leads the world, in fact, in a staggering range of scourges and vices. Nicholas Eberstadt, of the American Enterprise Institute, speculates that the heart-disease rate may be the highest anywhere, ever. Russians' propensity to die violently is probably unprecedented in industrialised societies at peace. The suicide rate is more than five times Britain's. With fewer cars, Russians are four times more likely to die in traffic accidents than Britons. Murder is 20 times more common than in western Europe. And so on.

There is an obvious culprit: booze, especially the Russian taste for strong spirits, sometimes not fit for human consumption and often moonshine. Heart disease and violence, the two biggest factors in the mortality surge, are strongly alcohol-related. Alcohol poisoning itself killed 36,000 Russians last year; in America, it kills a few hundred. Mikhail Gorbachev's efforts in the late 1980s to rein in alcohol consumption briefly improved life expectancy. In Irkutsk Igor Bolugin runs a club for children of alcoholics, sometimes taking them to Lake Baikal (see article). Many are themselves drinkers from around 13; in the villages, says Mr Bolugin, the drinking starts much younger.

But the obvious culprit is only part of a complicated, self-destructive syndrome. Other factors include smoking (among the highest rates in the world), pollution, including radioactivity, and a grim and corrupt health system. Alcoholism itself is a symptom. Some see the stress and inequality brought on by the Soviet Union's fall as the cause. But a wanton disregard for their own lives set in among Russian men long before that, and has persisted even as the economy has turned round. Sergei Voronov, deputy governor of Irkutsk, blames the local gene pool, derived largely from Soviet-era prisoners.

Whatever its causes, and shocking though it already is, Russia's national sickness is now likely to worsen, because of AIDS. Since the disease arrived so late, the Russians ought to have been ready. Instead, out of prudishness, intolerance and Soviet-style pig-headedness, the response was criminally lackadaisical.

This year the federal AIDS budget is around 3.3 billion roubles ($124m) with extra funding coming from abroad: it was a big increase, but it is piffling by international standards.

In Irkutsk, which has Russia's highest HIV-infection rate, it shows. Packs of stray dogs prowl the grounds of the hospital that houses the AIDS clinic. Yulia Rakhina, its boss, maintains that attitudes, not cash, are the main obstacle. Young people do not use condoms, she says; even HIV-positive people are blasé. “It's hard to explain to someone who feels well that they're going to die.” Like all Russians, says Ms Rakhina, they want to live better, but do nothing about it. Only 200 people in Irkutsk (a city of 600,000) are on anti-retroviral drugs.

Nationally, says Vadim Pokrovsky, head of the federal AIDS centre, some 20,000 will get drugs by the end of 2006—up from 4,000 at the start of it, but still low. The best guess for the total number of HIV-infected Russians is around 1m. (Rates of other sexually transmitted diseases are a guide, and syphilis is dozens of times more prevalent in Russia than in western Europe.) AIDS-related deaths are of hard to measure, partly because of Russia's astronomical level of tuberculosis. The number of future infections, says Mr Pokrovsky, will depend on whether the epidemic continues to shift from drug-takers to the general population. Irkutsk's infection rate reflects its big drug problem; but now, says Ms Rakhina, 70% of new female patients contract HIV from sex.

The immediate result of all this is a huge toll of tragic and needless early deaths. But its health and demographic malaise will also warp Russia's future. The army is struggling to find as many healthy recruits as Russian generals say they need. The population is ageing and sickening: behind the headline death rates is a secondary plague of incapacity. The workforce is shrinking. Yet, as a racist bombing at a Moscow market last month and a near-pogrom against Caucasians in a northern town this week both suggest, Russians are ill-disposed towards the new immigrants their economy increasingly needs.

Some, including Mr Putin, have gone so far as to prophesy the death of the nation itself. In Irkutsk the big fear is the “yellow peril”. As people quit cities that should never have existed, the population of Siberia and the Russian far east has shrunk faster than the rest of the country's. Those who remain fret about Chinese hordes swarming across the border, intent on annexation. “They work for kopeks and live ten to a room,” complains Alexander Turik, an Irkutsk extremist, also alleging that Chinese men are paid to marry Russian women. Even some Chinese worry: Changa, a long-term trader in the Irkutsk market known as Shanghai, grumbles that recent arrivals are damaging business.

It is an ancient Russian anxiety, though probably an irrational one. Many of the Chinese, like Changa, are shuttle traders rather than colonisers. Still, even if fears of Russia's dismemberment are fanciful, its demographic course will render it a different country, and probably a more ungovernable one. That, plus Russia's incubation of assorted epidemics, ought to be a worry for other countries too. Alas, persuading Russia and the Russians to change their ways has never been easy.

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Lake Baikal

Still blue

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From The Economist print edition

The world's biggest lake has seen off one threat. Can it survive its own beauty?

LAKE BAIKAL, explains the six-fingered shaman, sitting beneath a statue of Lenin in the centre of Irkutsk, contains many gods. It is also a sort of Siberian Galapagos, stuffed with endemic plants and animals. It is home to the world's largest colony of freshwater seals, which feed on a transparent oily fish that gives birth to live young (not eggs). Those gods, at least, must be smiling.

Known as the “pearl” or “blue eye” of Siberia, and as the “Sacred Sea” to the Buryats, a Mongol people who have lived on and around it for centuries, Baikal is the world's oldest, deepest and largest lake, containing around a fifth of the planet's unfrozen fresh water. It is growing, very slowly, into an ocean. The area's seismic activity meant that a plan to build an oil pipeline within spitting—and spilling—distance of the water was always dotty. Nevertheless, after approval by a rigged environmental commission, construction seemed inevitable. Until Vladimir Putin, Russia's president—who had previously insinuated that environmentalists were foreign agents—theatrically intervened, like some latter-day tsar, to shift the pipeline's route away from the lake.

Yet Lake Baikal's gods have other worries too. A Soviet-era pulp-and-paper plant at its southern tip still pollutes the lake, say greens. And then there are the tourists, drawn by Baikal's vastness, unusually clear water, pebbly beaches and the jagged cliffs and mountains that encircle it. Part of the trans-Siberian railway, commissioned by an earlier tsar, runs dramatically along the shore. The regional government wants to increase tourist numbers sixfold in three years. The summer season is short in Siberia, but icy winter excursions are becoming more popular.

In theory, tourism could provide an incentive to preserve Baikal. Petr Naumov, a local biologist, points out that poverty and joblessness are also threats, resulting in poaching and other dangers. But many are even more worried that weak regulation and official corruption might permit unscrupulous development. Activists say that houses are being built illegally close to the shore. Russian tourists are often shockingly messy, perhaps because of an atavistic sense that there is always more land to move on to. Andrei, a tour guide on beautiful Olkhon island, a holy place for shamanism halfway up the lake's western edge, is admirably frank: more tourism will be good for him, but bad for the island and the lake. (Is booze a problem on Olkhon? No, says Andrei: they sell it in the shops.)

For now, Olkhon, like most of Baikal, remains pristine. At the beginning and end of winter, when the ice is too thin to drive over, the island is cut off from the mainland. Mains electricity has only just arrived. The island's Buryats still farm. And its beribboned shamanist altars are visited by pilgrims and the curious, who, as is customary, leave token offerings to the spirits: coins, cigarettes—plus the odd vodka glass and mobile-phone card.

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The French presidency

The Sarko and Ségo show

Sep 7th 2006 | MARSEILLE
From The Economist print edition

Both leading presidential candidates are troublingly vague over reform plans

AP

Royal radiates, Sarkozy smiles

AMID the T-shirts and flip-flops adorned with the party logo, just one postcard was on sale at the youth gathering of France's centre-right UMP party last weekend. It showed Nicolas Sarkozy, party boss and presidential hopeful. At the Socialists' summer school a week before, several presidential aspirants had smiled down from a gift rack. The difference was telling.

The centre-right is united around its leading candidate. Even many who once backed Dominique de Villepin, the prime minister, call themselves *Sarkozystes*. But the sniping on the left has got worse. Rivals of Ségolène Royal, the only candidate who polls say might beat Mr Sarkozy, have begun a last-ditch campaign to stop her. “Technique does not replace politics,” huffed Lionel Jospin, a former prime minister who was the losing candidate in 2002 and wants to run again. “Good measurements” do not make a good president, puffed Martine Aubry, a former minister, in a sideswipe at snapshots of Ms Royal sporting a bikini this summer.

Once the Socialists pick their candidate in November, the swagger of unity on the right and the bickering on the left should make way for the real rivalry in next spring's election: between the two parties. And it looks as if the standard-bearers will indeed be Mr Sarkozy and Ms Royal. For months the polls have suggested that the campaign will become a contest between them. Attention is now turning from the candidates to their strategies—which in some respects seem confusingly similar.

Both Mr Sarkozy and Ms Royal promise to break with the past (Mr Sarkozy's favourite word is *rupture*). Being different and unbound by party traditions has been their common recipe for success at a time when the French are disillusioned with the political class. Both have broken party taboos: she by attacking the 35-hour week, he by calling for positive discrimination.

Both have also talked more of values than of actual reforms. The work ethic, classroom discipline and family values have been recurring themes, not concrete proposals to tackle France's 8.9% unemployment. Mr Sarkozy, who vows to cut the jobless rate to 5%, once called himself a liberal and urged more flexible labour laws. But since the government withdrew its new flexible youth contract last spring, his language has changed to what he calls “popular liberalism”. Last week, when the government announced a big rise in the minimum wage and more subsidies for low earners, Mr Sarkozy cheered.

Ms Royal is as hard to read. She has expressed admiration for Britain's prime minister, Tony Blair, and she recently went to Sweden to study the Scandinavian social model. But she wants to scrap a flexible work contract for small companies that was introduced a year ago. And her real objection to the 35-hour week is that it benefited managers, not workers.

The trouble, says Nicolas Baverez, a commentator, is that Ms Royal and Mr Sarkozy have reason to be vague on reform. For Ms Royal, driving a reformist agenda might merely reopen the ideological split among the Socialists that appeared in last year's referendum on the European constitution, when the left rebelled against the leadership and campaigned for a *non*. For Mr Sarkozy, who is still the interior minister, it has become trickier to call for radical change now that he is the only serious candidate in the government.

There are two risks in maintaining such vagueness for the next seven months. One is another 2002, when disillusion and leftist squabbling enabled the National Front leader, Jean-Marie Le Pen, to beat Mr Jospin in the first round. The second is “another 1995”, as Mr Baverez puts it. That year a candidate promising vague but radical change was elected. Yet, 11 years on, the problems that Jacques Chirac vowed to tackle still haunt France.

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Czech politics

None better

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From The Economist print edition

Does the Czech Republic really need a government?

POLAND'S government is proving eccentric and incompetent; Slovakia's sleazy and thuggish; Hungary's spendthrift and spineless. Against that depressing background, the failure of the Czechs to find any workable government, three months after their parliamentary election in June, may not be so bad.

The election was a tie. The most obvious coalition government, of conservatives, Christian Democrats and Greens, had 100 seats, with the same number going to the Social Democrats, led by the outgoing prime minister, Jiri Paroubek, and the pariah Communists.

The squabbling that followed has now produced a government that has taken office only to lose it. The conservative Civic Democrats (the clear victors by votes) are in power only until a confidence vote on October 4th, which they will almost certainly lose. Their leader, Mirek Topolanek, will continue as caretaker prime minister, at least until local and Senate elections later that month.

Mr Paroubek expects that his leftists will then have another shot at forming a government—perhaps a grand coalition in which the Civic Democrats would ditch Mr Topolanek. For his part, Mr Topolanek hopes that the Czech president, Vaclav Klaus, may call another election next spring. Weary Czech voters might then vote more decisively. But Mr Klaus, who dislikes Mr Topolanek, may prefer to give the Civic Democrats a second go under another leader.

So months of instability loom. Does it matter? Luckily for the Czechs, the economy is doing well, growing at an annual rate of 7.4% in the first quarter. The currency, the koruna, has barely wobbled. The new government, a mixture of Civic Democrats and non-party figures, can still do a bit to demonstrate its grit and integrity by picking better civil servants and pushing through minor reforms that do not require new legislation. “Armstrong was on the moon only a few hours, yet still left a mark,” says Mr Topolanek.

That may be too sanguine. The outgoing government left a budget deficit of 88 billion koruna ($4 billion), or 3.8% of GDP, for 2007, and probably more if counted properly. The hope of joining the euro in 2010 is receding over the horizon (as for many other central European countries). Pension reform is stalled, as is reform of the universities. Czechs have done well in recent years from cheap labour and foreign investment. With a good government that modernised the state administration, simplified taxes and stimulated competitiveness, they could do even better.

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German political parties

The ultimate programmes

Sep 7th 2006 | BERLIN
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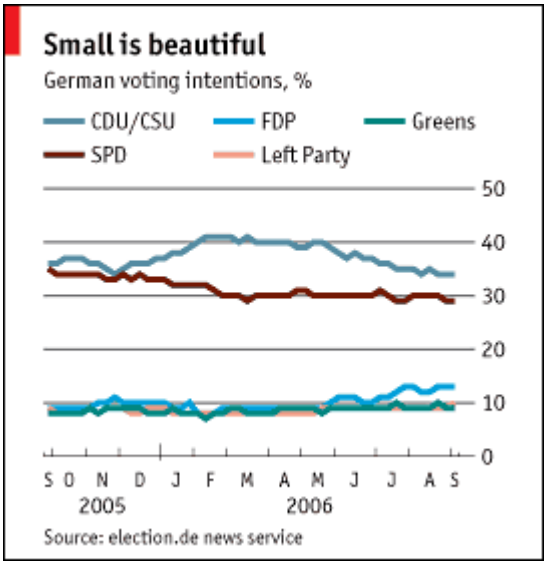
But the big political parties are still losing voters to smaller ones

BASHING each other ought to be a favourite pastime of Hubertus Heil and Ronald Pofalla, the secretaries-general respectively of Germany's Social Democrats (SPD) and Christian Democrats (CDU). After all, their job, beyond keeping their party machines running, is to attack their opponents. Yet the two men are polite, even chummy. For their current task is not to lunge at each other, but to draw up long-term political platforms for their parties.



Indeed, all parties are at it. The Christian Social Union (CSU), the CDU's Bavarian sister party, the liberal Free Democrats (FDP), the Greens and even the Left Party—the parties represented with the CDU and the SPD in the Bundestag, or lower house—are all working on new programmes. It is as if the political class, after years of piecemeal reform and muddling through, has sat down to work out a new blueprint for Germany's social-market economy.

In large measure, the parties are playing catch-up. Much has happened since the SPD and CDU adopted their previous programmes, in 1989 and 1994 respectively. Weakened by the growth of smaller parties, and forced into a grand coalition after last September's election, Germany's two biggest parties hope to regain ground they are continuing to lose (see chart). The parties are also jockeying for advantage ahead of the next federal election, which could come sooner than the official date of September 2009.

Politicians from other countries may wonder why the Germans put so many precious resources into an exercise of such dubious value. The process certainly has a tradition, symbolised by the SPD and its Bad Godesberg programme, which in 1959 marked the party's metamorphosis from a workers' to a big-tent people's party. Yet these book-length laundry lists are often already obsolete when they are finally approved, and then rarely read again.

It is, however, less the result than the process of reaching it that counts. Writing programmes “keeps the membership happy”, says Klaus von Beyme, a professor at Heidelberg University. The activists have something to chew on, as well as a doctrine to rely on. The voters also seem to think that a proper party needs a proper programme, says Franz Walter of Göttingen University. A lengthy process to develop one signals political seriousness.

All this explains why, until late next year, the SPD and CDU are planning countless committees and conferences on everything from Europe to energy, and demography to defence. In addition, to go beyond the usual haggling over bullet points in back rooms, both parties have put up internet forums and even invited foreign experts to join in. The final products are supposed to be shorter and easier to read than previous versions.

One aim of all this, of course, is to win back voters. The CDU's Mr Pofalla is trying to “modernise” his organisation, overcoming cultural reservations among a younger, more urban crowd, by pushing the party towards a more realistic model of a modern family (which often lacks a male breadwinner, for example). The SPD wants to focus on the centre, meaning those “pillars of society”, such as low-skilled and health-care workers, whose social status is increasingly at risk.

The smaller parties are more interested in preparing for the new coalitions that their growth may bring about. The FDP, for instance, wants to be more environmentalist. The Greens, for their part, need to show that they stand for more than greenery—and that they matter when they are no longer in government, either at federal or at state level.

Yet the bigger job, at least for the two main parties, is to find an answer to a question asked by many: what is the role of the welfare state in a globalised world? Trying to achieve equality mainly through transfer payments no longer works, says the SPD's Mr Heil. What is needed instead is to “make provisions” to avoid inequality in the first place. This approach is not shared by many of the party's traditionalists. A similar fault line has shown up in recent weeks in the CDU, between those who want the party to push for more economic freedom and reform and those who do not want it to be too “capitalist”.

At least in relative terms, the outcome seems to be preordained: the SPD will argue for a somewhat larger role for the state than the CDU. But those hoping that the entire political spectrum will shift towards economic liberalism may be disappointed. The political winds are now blowing in the other direction. The lesson of last year's election, many politicians believe, is that one cannot win by proposing radical reforms. With the economy growing and the budget deficit shrinking, it also becomes harder to argue for change.

Ideally all parties should finish their programmes by the end of 2007—by which time, say some pundits, the chances are high that the grand coalition will be falling apart. After a snap election, new alliances could take shape. One such might be a “traffic light” coalition of SPD (red), FDP (yellow) and Greens. Perhaps more likely is the “Jamaica” version, combining the FDP and the Greens with the CDU (black). However, a “red-red-green” alliance (SPD/Left Party/Greens) still looks unlikely, at least for the foreseeable future.

Yet the result of the programmatic efforts could be different. At the end of the day the SPD and the CDU might merely demonstrate that, as with German society as a whole, they are too heterogeneous to come up with a coherent programme. Add growing discontent with the government and further defections to small parties, and it is easy to see that the two biggest parties may be heading for yet another drubbing. Perhaps the era of Germany's big-tent people's parties is itself drawing to an end. In which case, their new programmes could be their last.

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Charlemagne

Europe's tentative reformers

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It's not Thatcherism or Reaganomics—but it is a start

WHAT a difference a year makes. Twelve months ago the discredited governments of continental Europe's biggest countries were stumbling towards their unlamented ends. Obsessed with political survival and assailed on all sides, the dismal trio of Gerhard Schröder, Silvio Berlusconi and Jacques Chirac were defensive, self-destructive and cynical, even by Europe's low standards.

Now Italy and Germany are led by governments that have already done a bit more than expected at the time of their elections. And next year's presidential election in France looks, at least for now, as if it will be contested by two of the more reform-minded members of the main parties, the Socialists' Ségolène Royal and the centre-right UMP's Nicolas Sarkozy.

This may sound Pollyanna-ish, since it is now customary to write off the German and Italian governments as disappointments. It is true that both are in some political trouble. And, considered by the pure light of public-policy design, their reform plans are tentative at best. Germany's grand coalition has flunked serious health reform. Instead of loosening the link between premiums and wages, it has put up the premiums, increasing non-wage costs that are already among the world's highest. Italy's centre-left government has been forced to retreat on spending cuts and to cave in to, of all people, taxi-drivers.

Yet politics is not just about policies. It is also about who your friends and enemies are. And considered as exponents of power and influence, the German and Italian governments deserve more credit than they are getting.

Unexpectedly, having won the election by a paper-thin margin, the government of Romano Prodi went straight after Italy's notoriously cosseted groups, such as pharmacists, lawyers and, yes, taxi-drivers, who all have a grip on their professions. By insisting on a vote of confidence, the government has managed to get its initial decree breaking open these little monopolies passed into law.

In Germany it has long been customary for the government, in the interests of consensus politics and social stability, to give “the social partners”—the catch-all name for employers' associations, trade unions and other interest groups—special privileges when writing new laws. On occasion, governments have even asked specific groups to draft legislation. But in drawing up health-care and tax reforms, Angela Merkel's grand coalition has tried to shut health insurers and other lobby groups out of the decision-

making process, refused to listen to mere objections and demanded that, if a lobby group has a criticism, it must come up with an alternative way of meeting the government's aim (one reason why the lobbies have turned on the government with offended fury). At the same time, two members of parliament who are also heads of employers' federations (and thus personify Germany's close ties between lobbies and government) have had to choose between their business jobs and their parliamentary seats. Oh, the indignity.

Giving Italians the right to buy aspirins at a supermarket does not sound like a revolution. It falls far short of the comparable clashes in Anglo-Saxon countries that took place between governments and interest groups some 25 years ago, when Ronald Reagan fired America's air-traffic controllers and Margaret Thatcher did battle with Britain's coalminers. Those battles broke the power of the unions, then primary impediments to market reform, and paved the way for deeper structural changes. In big continental European countries now, argues Ann Mettler of the Lisbon Council, a Brussels think-tank, it is professional and business lobbies that are often the obstacles to change: the modern equivalents of Arthur Scargill's National Union of Mineworkers, but in nattier suits.

European governments, which (unlike Mr Reagan and Mrs Thatcher) have only partial electoral mandates, lack the power and the desire to go to war with their lobbies. Germany's government does not want to take on the unions, and Italy's does not want to tackle public-sector workers who vote for the left. But the Italian and German examples do show that governments are beginning to recognise that the social partners can be obstacles to change, not promoters of it. And even if the modest confrontations now happening are mere tremors, rather than earthquakes, they may end up helping to reshape the political landscape.

Consensus or confrontation?

So far Europe has seen two different methods of economic reform. In one (eg, in Ireland and the Netherlands in the 1980s) everyone is gathered round the table—government, employers, unions, Uncle Tom Cobbleigh—to hammer out something more or less acceptable to all. For most west European countries, for whom good relations with the social partners are a way of life, this remains the ideal. But it has become increasingly clear that, for it to work, a country must not only be facing an unmistakable economic crisis (to focus everyone's attention), but also be small. In small places, everyone knows each other and it is easier to share the pain of reform equitably. Neither condition is fulfilled in the big three continental countries.

Hence the attraction of the second method, used by Mrs Thatcher (and the previous Slovak government). Here, governments took on lobbies from the start and appealed over their heads to a wider public interest. Nobody knows whether reform can be carried out in the teeth of opposition from unions and employers in euro-area countries as well. But the Italian and German governments—one led by the centre-left, the other by the centre-right—have started to try, and are achieving more than most people predicted when they took over. If, still a big if, a reform-minded president emerges in France next year, it is possible that by 2007 the governments of all three will be committed to tackling the real obstacles to reform for the first time in years.

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Tony Blair

Moving towards the exit

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Reuters

A plot to oust the prime minister has left him at the chancellor's mercy

WHEN Tony Blair looks back on the events that began the countdown to his departure from Downing Street, he will surely regret the interview published by the *Times* newspaper towards the end of last week. Responding to questions about when he would leave office, he used a formula he had employed many times before. Unlike Margaret Thatcher, he had no intention of carrying “on and on” and he had already promised to quit in time for his successor to bed in. Designed to soothe the growing agitation within the Labour Party for a clear and irrevocable timetable, his comments had the opposite effect. The revolt they triggered among Labour MPs marked the moment when Mr Blair lost authority over his party.

As MPs returned to Westminster, the outlines of a plot began to form. There had already been talk of a letter to the prime minister demanding that he leave office immediately or produce public plans for handing over to a successor. Before Monday was out Mr Blair received such a letter from 15 MPs first elected in 2001. Among them were two prominent Blairites, a junior minister close to Gordon Brown, the chancellor, and several ministerial aides. “We believe that it is impossible for the party and the government to renew itself without renewing its leadership as a matter of urgency,” the letter concluded. “As utter Labour loyalists and implacable modernisers, we therefore have to ask you to stand aside.” Two days later, those with government posts resigned from them.

Although few, if any, of the rebel MPs' names were known to the public, this was undoubtedly the worst internal crisis of Mr Blair's nine years as prime minister. The implication was clear. If New Labour stalwarts such as these wanted Mr Blair to leave office at once, others in the parliamentary party—more than 100, on some estimates—must have reached the same conclusion.

In an effort to restore order, Mr Blair rebuked Tom Watson, a junior defence minister who was the most senior of the signatories, and summoned Mr Brown to Downing Street for a meeting at 9am on September 6th. Mr Blair was not certain whether the chancellor was directly behind the moves against him, but such is their mutual distrust that he thought it more than likely. At the very least, he reckoned that Mr Brown could end the rebellion if he wanted to and that it was as much in his interests as in Mr

Blair's for him to do so.

Mr Brown does not need convincing that it would be better to become leader through the “stable and orderly transition” that Mr Blair has frequently promised than to do so by bloody putsch. But he is impatient to come into what he sees as his rightful inheritance. He is also suspicious that Mr Blair is clinging on in part to allow a credible challenger to emerge. The current favourite in Downing Street to take on Mr Brown is John Reid, the forceful home secretary. Mr Brown is also under pressure from his own supporters not to come to Mr Blair's rescue without getting what he wants in return, as he has done in the past.

Although the meeting was private, it appears that Mr Brown presented the prime minister with a list of demands. They included announcing a departure sooner than the date in late July envisaged by Mr Blair and something like a joint premiership in the interim. According to people close to both men, the meeting was acrimonious. At one point Mr Blair accused the chancellor of blackmail. However, at a second meeting several hours later tempers had cooled sufficiently to permit a practical discussion about how the crisis should be handled if a tidy handover were still to take place.

What is clear is that Mr Brown is now in a position to dictate terms. From his vantage point there are arguments for and against an early handover. If he were in charge before the local and regional elections on May 3rd, it could help Labour to avoid electoral meltdown in them, some of his supporters believe. Others calculate that it might be better to let Mr Blair take responsibility for what are likely to be bad results in any event—which would also allow the prime minister to celebrate his tenth anniversary in office.

As *The Economist* went to press, Mr Blair made his first public admission that he would no longer be prime minister this time next year. But he will have to go further than that in the days leading up to Labour's annual conference at the end of September if he is to avoid further unrest. Mr Blair may survive in Downing Street for several more months, perhaps well into next year, but he is no longer master of his own destiny.

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Abducting children

Good golly

Sep 7th 2006
From The Economist print edition

One girl, two warring parents and international diplomacy

WHEN Molly Campbell, a 12-year-old girl with a Scottish mother and Pakistani father, disappeared from the gates of her school on the Isle of Lewis two weeks ago, it seemed obvious what had happened. Her father had had her abducted, had flown her to Pakistan and would most likely force her into an arranged marriage. Her mother (who was given custody of the child by British courts) wept publicly; the police swore they would do their best to find her; Mohammed Sarwar, a Labour MP, tried to track her down in Pakistan.

Molly's plight increasingly seemed to resemble that of Elián Gonzáles, the boy who floated across the Florida straits from Cuba six years ago before being sent the other way by an American court. Like him, she appeared to have been snatched away from freedom.

But on September 1st a girl called Misbah Iram Ahmed Rana appeared in court in Lahore, holding her father's hand. She said how much she wanted to stay, declaring that her love of Islam was stronger even than her love for the Western Isles. “My name is not Molly,” she corrected one journalist when the cameras caught up with her, “it is Misbah.”

Misbah's apparent contentment made plenty of people look silly and a few re-examine their prejudices. Such prejudices are not entirely unfounded, though. According to Reunite, a charity that works to put parents in touch with their children when a father or mother has taken them abroad and defied court rulings, Pakistan is the most popular destination for abductors. Parents contacted the charity about the disappearance of 454 children last year. Of that number, 43 had gone to Pakistan.

The British and Pakistani governments signed a protocol in 2003 to improve co-operation between their courts. Thus far the arrangement seems to be working. Since October of that year, 60 cases of parents disappearing to Pakistan with children in tow have been recorded. In 42 cases the children eventually came back.

Molly's case will now test the robustness of the system. Sajid Ahmed Rana's home in Lahore is palatial compared with Louise Campbell's council house in a remote corner of Scotland. Mr Rana has also insinuated that Mrs Campbell is an unsuitable parent for a Muslim girl. In theory this is all irrelevant, since British courts have determined that Molly should live with her mother. But Pakistan's may decide to ignore the protocol, in which case Molly will remain Misbah.

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Muslim schools

Better than billed

Sep 7th 2006
From The Economist print edition

Are they unjustly under fire?

ON SEPTEMBER 2nd police swooped on a private Muslim school, Jameah Islameah, tucked away in a prosperous corner of south-east England. Since then they have been searching its building and grounds, concentrating, they say, on groups that once camped there. One happy camper was Abu Hamza al-Masri, an imam from the mosque in Finsbury Park, north London, who is serving seven years in jail for inciting murder and racial hatred. Molana Bilal Patel, the school's head, denies all knowledge of Mr Hamza's fireside chats. The search continues.

The raid has reignited a fiery debate about whether Muslim schools—both here and abroad—harbour extremists like Mr Hamza, who radicalise naïve youngsters. There are around 140 Muslim schools in England, seven of which are funded by the state. They are just one strand among the many religious schools, almost all Christian, which make up a third of the state system. The government favours faith schools: Christian groups are pitching in to run new city academies in poor areas.

But religious schools are not universally popular. Secularists argue that they increase ethnic segregation. A report commissioned by the local authority in Bradford pinpointed separation in schools as one cause of the riots by Asian youths in that northern city in 2001. Last year Trevor Phillips, chairman of the Commission for Racial Equality, fanned the flames when he said that such schools were “schooling people to be strangers to each other”.

Muslim schools, predictably, attract more criticism than the rest. Most, perhaps all, have nothing to do with extremism and suicide bombing. But many private schools are accused of offering a poor education more focused on Islam than exams; Jameah Islameah, for one, has been severely criticised by Ofsted, the schools-inspection body.

These arguments, until recently, resonated with the government. For years ministers resisted calls to increase the number of state-funded Muslim schools. Mindful of the low academic achievement of Muslim children, however, the government put cash into a scheme to boost their performance in state schools.

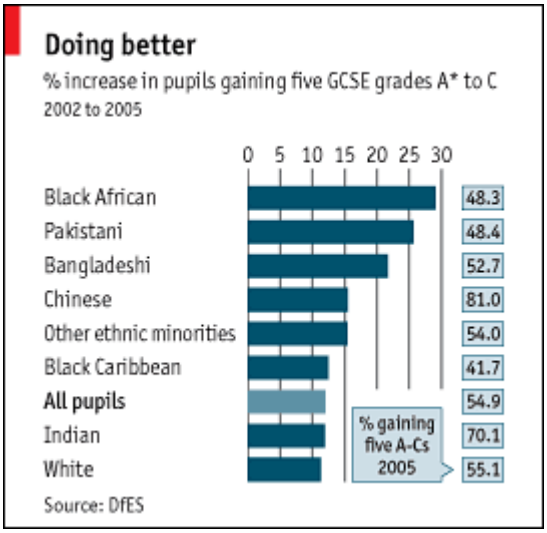
After the London bombings in July 2005 the prime minister changed tack. He listened to voices within his own party, including that of a Muslim peer, Lady Uddin, who argued that it was hypocritical to support other faith schools while denying Muslims a free religious education within the state system. And official scrutiny should eradicate poor teaching and questionable political activities. Since then the number of Muslim state schools has increased and more await approval.

Something seems to be working. All children are improving their marks on the GCSE exams which they take at 15 or 16 years of age, but students of Bangladeshi and Pakistani origin are improving faster than most (see chart). They are doing even better at several specifically Muslim schools, both state and private.

The latter results may reflect better teaching than critics usually give such schools credit for. Or they may reflect other factors. Schools and classes are usually small. Though many students take exams in “hard” subjects such as English and maths, some also take Islamic studies, Gujarati and Urdu (mother tongues for many). Ofsted reports praise behaviour and results but criticise rigid teachers who discourage debate. Music is banned

or badly taught because it is “un-Islamic” and some schools do not teach European foreign languages.

Mohammad Mukadam, the chairman of the Association of Muslim Schools, says his members have an “ongoing debate” with the education department about sex education and music. He concedes that they educate Muslims apart but says they turn youngsters into “model British citizens” itching to participate in society. Claire Tinker, an academic from Bristol university, agrees. In her research on Muslim schools she found that many parents selected them for their academic standards, not because they favour separatism. And they have another benefit too: Mr Mukadam says that many girls go on to university from Muslim schools, instead of staying at home like their mothers.



And that is the heart of the matter. Though logic suggests that segregating religious groups is a recipe for disaster in these tense days, a decent education gives young people prospects that should ease their integration and reduce the lure of extremism. Blame Muslim schools if they restrict choice and argument; laud them when they give children a chance to shine.

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Gerry Adams in Israel

Blessed are the peacemakers

Sep 7th 2006 | BELFAST
From The Economist print edition

Sinn Fein exports its expertise in conflict resolution

AFP

The quick-off-the-mark and the dead

IRISH republicans have always identified with far-off struggles. During the Troubles, republican street murals in Belfast featured Arab, black and Latin American “freedom fighters” flanking IRA figures. And the interest was mutual: as the British empire crumbled, distant nationalist uprisings imitated Irish rebels. More recently and more controversially, the IRA has shared training grounds with Hizbullah's precursors in the PLO, British and American intelligence sources say, and become involved with Colombia's FARC.

Now the men who led the IRA are advising on conflict resolution abroad. At the invitation of the Palestinian president, Mahmoud Abbas, Gerry Adams, the leader of Sinn Fein, flew into Tel Aviv on Tuesday for talks with Fatah party officials and members of the Palestinian parliament, including some from the ruling Hamas party. Mr Adams says he knows that no two conflicts are identical but that protagonists must negotiate—although Ehud Olmert, the Israeli premier, predictably refused to see him.

Before setting out Mr Adams told the *Jerusalem Post* that suicide bombings had “no legitimacy”, and that America and the European Union should not withhold funds from the Palestinian Authority. Instead, he said, it was vital to offer an alternative to “armed action”. This is what happened in the Irish peace process and it transformed “a militarised society” into one where ex-thugs have been transformed into workers for NGOs.

Right on cue, an official report confirmed on Wednesday that because the IRA has quit its old ways the British army's presence in Northern Ireland has been reduced to its level before the Troubles. Peter Hain, the secretary for Northern Ireland, hopes that in early October the International Monitoring Commission, which keeps tabs on IRA weapons and activities, will report that the erstwhile hitmen have continued, broadly, to keep the peace and will provide more detail to prove it. Mr Hain also announced that later in October he would whisk away local politicians, perhaps to Scotland, for “critical negotiations” before the expiry of his November 24th deadline for agreement on restoring the devolved Stormont assembly.

Like the IRA's meetings earlier this year with ETA in Spain's Basque country, urging on the “permanent” ceasefire announced in March, and recent contacts with the Sri Lankan government and the Tamil Tigers, this Tel Aviv visit will do Sinn Fein no harm at home. The party can weather the outspoken disapproval of Mitchell Reiss, the American special envoy to Northern Ireland. He hints that the Palestinian venture may

prolong sanctions against fund-raising by Sinn Fein in America, supposedly imposed because the party has not yet agreed to support policing in Northern Ireland.

Despite its pique, the Bush administration, like the British government, thinks the IRA is de-fanged and Sinn Fein well on the road to political virtue. And Mr Reiss, like Tony Blair, knows that the main obstacle to progress is not Sinn Fein but the Rev Ian Paisley, the leader of the largest unionist party in Northern Ireland. If Mr Paisley agreed to share power with Sinn Fein, official circles expect that republicans would barter their endorsement of policing for some final concessions, and rush back into Stormont. In the meantime, making a splash abroad must substitute for making progress at home.

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Crime statistics

Confusing and disbelieved

Sep 7th 2006
From The Economist print edition

The Home Office should overhaul and outsource its main series

ASK criminologists whether crime has fallen since 1997, when Tony Blair proclaimed New Labour would be “tough on crime, tough on the causes of crime”, and they will hedge. Definitions and perceptions of crime change all the time, they say, and so does people's willingness to tell the police about it. Much wrongdoing is hidden—shoplifting is often inferred from stock-takes rather than noticed at the time. And it can be hard to know what to count—if someone scratches the paintwork on every car on a street, is that one crime or many?

Push them and they will point you in the direction of the British Crime Survey (BCS), which, gratifyingly for Mr Blair, shows crime falling by nearly a third since Labour came to power. This large-scale survey is intended to be more reliable than the other main source of crime figures—police records, which do not show that fall—as it includes crimes that were never reported and also covers perception and fear of crime. But the survey's good news is widely disbelieved by the public. Each year those interviewed tell the researchers that they themselves have suffered fewer crimes—but they are adamant that nationally crime is on the rise.

Now the Statistics Commission, the independent watchdog for official statistics, is proposing ways to improve both the numbers and their believability. In a report published on September 4th it urges the home secretary, John Reid, to untangle policymaking from the compilation and publication of crime statistics. The numbers will never be believed, it says, as long as “the same ministers, advisers and senior officials are directly involved both in publishing the figures and in setting out the government's position”. Crime recorded by the police should be more transparent and the BCS overhauled and moved to the Office for National Statistics.

One reason why BCS figures diverge from public perception is that the survey misses out huge swathes of crime. Interviewers do not ask about rape (sexual offences are surveyed differently) or murder (whose victims are unavailable for comment). The survey does not enumerate crimes against businesses and it under-reports things such as drug offences where the notion of victim is vague. And people under the age of 16 are not interviewed—a serious limitation, since young people are disproportionately likely to be victims.

Police figures also have their shortcomings, starting with the fact that they miss all unreported crimes. Many that are reported are poorly defined. People are particularly concerned about violent crime, for example—but half of all crimes that the police categorise as violent do not end in injury. The report suggests reclassifying these oxymoronic offences—which would mean tidying up oddities such as bigamy and “concealment of birth” as well as the much more prevalent “common assault” and “harassment”, which sound worse than they are.

Many people want crime statistics to provide other sorts of information, too—especially on crime levels in specific towns and neighbourhoods. The commission reckons that individual police forces could start publishing co-ordinated local analyses. Until recently, inconsistencies in recording crime over time and across police forces would have made such figures useless. Common standards introduced in 2002, however, have made them more reliable—perhaps reliable enough to provide a snapshot of individual streets.

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Young offenders

Arrested development

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Tackling child criminals before they earn the name

SIX years ago 19-year-old Zahid Mubarek was clubbed to death by his cell-mate in Feltham, a prison for young offenders in Middlesex. This summer an inquiry into his death recommended that young criminals should not be forced to share cells. But in August the Youth Justice Board said it had little choice but to convert single cells into doubles because Britain's young offenders' institutions, like its prisons, were bursting at the seams. This is hardly surprising: twice as many under-18s are locked up now as a decade ago.

The solution to overcrowding in children's jails seems obvious: stop children becoming criminals in the first place. On Britain's poorest, most crime-plagued estates, special “youth offending teams” are identifying the children considered most likely to become criminals, and doing everything they can to stop them. “Go anywhere and ask teachers and police who will be tomorrow's criminals; they won't have any difficulty telling you,” says Bob Ashford, head of prevention at the Youth Justice Board, which runs the projects. “It makes sense to focus on them.”

Youth Inclusion Programmes (YIPs), introduced in 2000, now run on 110 poor estates. In each place, the programmes target a “top 50” troublesome 13- to 16-year-olds. The teenagers' involvement is voluntary. But more than three-quarters take part, committing themselves to five hours a week of “appropriate intervention”: activities designed to deflect them from crime and get them to attend school more often. Educational under-achievement and criminal activity are closely linked.

YIPs appear to have had a mixed, but generally positive, effect. Truancies, rather bewilderingly, have risen among children on the programme; the government hopes this is because children skive more as they get older. But the arrest rate has fallen. Of the 40% who had been arrested before joining the scheme, three-quarters were arrested for fewer offences afterwards. A similar share of those who had never been arrested retained blemish-free records.

YIPs' success has led to a similar project for younger children. Youth Inclusion and Support Panels (YISPs) target disorderly eight- to 13-year-olds. Eight may seem an alarmingly tender age to be labelled a potential criminal, but the government believes that the earlier the intervention the better. On Tuesday, in a speech on social exclusion (see article), Tony Blair said his government would expand programmes that target even prospective parents whose children seem destined to go wrong. A MORI survey into youth crime in 2004 found that a child who had not committed a criminal offence by the age of 14 was unlikely to do so later. After a funding top-up last year, there are now 220 YISPs around the country.

Critics of these schemes believe that they risk stigmatising children, some of whom have never committed a crime. “I'm not sure these children should be treated as a distinct group,” says Rob Allan, from the International Centre for Prison Studies at King's College London. It bothers him that these programmes are run by the Youth Justice Board. “Mainstream services should be able to meet the needs of all vulnerable children, whether they are at risk of becoming criminals or teenage mothers,” he says. If services are failing to do this, he says, they should be reformed.

Hasan Faruk, a youth worker, is sorting through the names of youngsters sent to him by teachers, police and social workers for a newly-established YIP in Tower Hamlets, an area of high crime and poverty in east London. The “top 50” names emerging from his list have already been labelled problem children by their communities, he says; YIPs only acknowledge the label in order to peel it off. “I've been waiting for something like this to come to Tower Hamlets,” he says. “I've seen too many kids fall through the cracks of other services.”

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Flood insurance

Knee deep in trouble

Sep 7th 2006
From The Economist print edition

Private insurers are less keen than they were

BRITAIN'S fascination with the weather and its obligatory mention in the most casual conversation often puzzles foreigners. This meteorological preoccupation extends to the nation's financial markets. According to some estimates, as many as 95% of British properties are insured against flood, even though only about a tenth are threatened by it.

What may seem an obsessive avoidance of risk is in fact the result of a longstanding bargain. In 1961 the government off-loaded the burden of compensating victims of flood damage to an insurance industry in danger of nationalisation. Insurers agreed to bundle flood cover into all home-insurance policies, so that the risk posed by some would be spread among the many. The government for its part said it would build defences to minimise the risk of a major catastrophe.

This widespread private protection is unusual. In most rich countries the government simply bails out victims of natural disasters. Only half of family homes in America's most flood-prone regions are covered by specific flood-insurance policies, according to the Rand Corporation.

But Britain's “gentleman's agreement” is beginning to come apart, potentially leaving tens of thousands of homes uncovered. Problems started in 2000, when the country suffered its worst flooding in almost half a century. About 10,000 properties were inundated and almost £1 billion in insurance claims paid out.

This prompted insurers to threaten that they would refuse coverage to properties most at risk unless the government honoured its pledge on flood defences. They also started charging more for insuring in flood-prone areas, as technological improvements in modelling storms and forecasting flood risk helped them target risk. In Lewes, for example, hard hit in 2000, a survey in 2003 found that a quarter of respondents had had their premiums substantially increased and nearly a fifth could not renew their policies at all.

The government too is breaking its side of the bargain. Spending on flood defences was increased from 2003, but official enthusiasm for building new flood barriers is waning. In July the Environment Agency's budget for flood-risk management was cut by almost £15m, reversing a promise made just eight months earlier to maintain spending at current levels in real terms.

Even if that promise were kept, however, it would not be enough. Although London is well protected by the Thames Barrier, rising oceans will make the city's defences obsolete by 2040, says David Crichton, of the Benfield Hazard Research Centre. Spending on flood defences may have to rise by £10m-30m per year in coming decades to cope with the effects of global warming, according to a government study on climate change. The Association of British Insurers (ABI) wants the government to raise its investment by 10% a year to £750m by 2011.

By providing what is effectively subsidised insurance, the agreement has encouraged building in silly places. The Environment Agency reckons that some 570,000 homes and businesses are now in great danger of being flooded. Yet more are still being built. As many as 200,000 new properties are scheduled for development in flood plains, says Royal & Sun Alliance, an insurer. More than 1,000 planning applications were approved between 2002 and 2005, despite recommendations to the contrary from the Environment Agency. Insurers have already said they are reluctant to cover them.

This presents the government with a thorny problem. It wants thousands of new homes to be built in the Thames Gateway, a flood plain to the east of London, but no bank will finance their construction unless

they can be insured. Pressing ahead with those plans will mean spending billions more on flood defences, or promising to bail out homeowners when the next big storm strikes.

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Bagehot

The sands run out

Sep 7th 2006
From The Economist print edition

Labour MPs may come to regret their attempt to force Tony Blair from office

ON TUESDAY Tony Blair gave a thoughtful speech to the Joseph Rowntree Foundation in York on social exclusion. The audience was crammed with experts on dealing with dysfunctional families. Nearly all of them agreed that the prime minister's ideas for intervening in very early childhood to break the cycle that leads to deprived and disruptive lives were radical and sensible. But back in London around 100 Labour MPs, including some once keen Blairites, were intent on forcing Mr Blair either to leave office or, at the least, to name the date of his going.

It is a peculiar situation. The government is lagging in the polls, but not disastrously so. According to the latest Populus poll for the *Times*, the Tories have a four-point lead over Labour. If Gordon Brown, the chancellor, were to replace Mr Blair, the Conservative lead would extend to nine points. Yet it is Mr Brown whom the agitating MPs expect to restore the government's fortunes. Nor are the party's supporters in anything like as great a hurry to be rid of Mr Blair as its MPs. Less than a third want him to resign this year and two-fifths would be happy to see him carry on until just before the next election.

What makes the MPs' actions odder still is that Mr Blair has promised to quit in plenty of time for his successor to establish himself; he is committed to “an orderly transition” of power. Even before the plotting and manoeuvring of the last few days, it was hard to find anyone at Westminster who did not believe that by this time next year Labour would have a new leader.

This means that a large number of Labour MPs are willing to embark upon a highly risky course to achieve something of uncertain benefit just a little sooner than otherwise. One of the few certainties in electoral politics is that voters get fed up with parties that are more engrossed in their own affairs than in those of the nation. For all the apparently reasonable talk of ending the damaging uncertainty over the prime minister's departure date and the need for a process of “renewal” that can begin only when he has gone, there is something close to frenzy in the air.

As he contemplates his fast-ebbing authority over his party, Mr Blair is more puzzled and exasperated than angry or depressed. His attitude appears to be that if the party has made up its mind that it wants to be rid of him there's not much he can do to stop it. But he finds it hard to understand why people have got themselves into such a panic. He thinks that to some extent the agitation for him to quit has become a proxy for debating the party's future direction. Many within Labour hope that when Mr Blair has gone they will no longer be forced to stomach policies that have increasingly encroached on their ideological comfort zone.

Mr Blair sees this as evidence that “progressive” parties which have been in power for a long time (something Labour had not experienced under any of his predecessors) have more difficulty than right-wing parties in adjusting to the inevitable swinging of the political pendulum. After ten years of Margaret Thatcher, the pendulum swung away from rampant individualism and back towards a desire for greater collectivism. Voters were willing to see their taxes rise to fund better public services and alleviate widening income inequality. But by swapping Mrs Thatcher for John Major, the Tories were able to swing with the pendulum and thus win another term of office, albeit one that turned out to be a miserable experience.

Now, after nearly ten years of New Labour during which taxes have risen and public spending has increased dramatically, Mr Blair sees the pendulum swinging back towards greater individualism. But at precisely the moment when the government should be coming up with new ideas to extend choice and competition in public services, many in the party want to call a halt by reclaiming, as they would see it, the progressive credentials that the government has mislaid in office. Mr Blair's great fear is that, if this were to happen, the party and the voters would find themselves moving rapidly in opposite directions.

Hence his frustration with Mr Brown's reluctance—born of caution and the suspicion that Mr Blair is trying to define his premiership for him—to reveal the next chapter in the New Labour narrative. It is partly that Mr Blair thinks Mr Brown has a duty to the party and the country to set out his beliefs before, rather than after, becoming prime minister. And it is partly because, deep down, the legacy that Mr Blair cares about most is not a particular set of policies but rather New Labour's ability to understand and identify itself with the mood of the electorate. That is something he is not at all convinced Mr Brown will be good at.

The revolting party

Mr Blair is almost certainly right in many of his forebodings. Where he is wrong is in thinking that there is much more he can do about them. As Mr Major discovered, once authority is lost, it is impossible to regain. What the round-robin letters signed by MPs condemning Mr Blair's refusal to name a departure date suggest, along with the rising wave of so far junior ministerial resignations, is that his critics have ceased to fear him.

He retains some leverage with the chancellor, though not much: if Mr Blair is hounded from office, Mr Brown's already difficult inheritance will become a poisoned one. But the crisis meetings between the two men on September 6th were as tense and difficult as any they have had. While Mr Blair is not sure that Mr Brown is directly responsible for the plotting, he does believe that it is within the chancellor's power to stop it.

Mr Blair hopes that he can restore order by confirming publicly for the first time that he will be gone before next year's conference. That will not happen unless Mr Brown can be squared. If he cannot, an ignominious and much quicker exit beckons. No doubt, it is very exciting to be a Labour MP just now. But there is a price to be paid for this kind of excitement. Ask the Tories.

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The heat is on

Sep 7th 2006
From The Economist print edition

Getty Images

Global warming, it now seems, is for real. Emma Duncan examines the nature of the problem, and possible solutions

Get article background

THE world's climate has barely changed since the industrial revolution. The temperature was stable in the 19th century, rose very slightly during the first half of the 20th, fell back in the 1950s-70s, then started rising again. Over the past 100 years, it has gone up by about 0.6°C (1.1°F).

So what's the fuss about? Not so much the rise in temperature as the reason for it. Previous changes in the world's climate have been set off by variations either in the angle of the Earth's rotation or in its distance from the sun. This time there is another factor involved: man-made “greenhouse gases”.

When the sun's energy hits the Earth, most of it bounces back into space. But carbon dioxide and around 30 other greenhouse gases, such as methane, help create a layer that traps some of the heat from the sun, thus warming the planet. And, because of the burning of fossil fuels, which contain the CO_2 that the original plants breathed in from the atmosphere, levels of CO_2 have increased from around 280 parts per million (ppm) before the industrial revolution to around 380ppm now. Studies of ice cores show that concentrations have not been so high for nearly half a million years. At the current rate of increase, they will have reached 800ppm by the end of this century. Given that CO_2 being emitted now stays in the atmosphere for up to 200 years, getting those concentrations down will take a long time.

The first person to spot the connection between temperature and human activity was a 19th-century scientist called Svante Arrhenius. He speculated that emissions from industry could double CO_2 levels in 3,000 years, thus warming the planet. Being a Swede, he thought that was just fine. In 1938 a British engineer called Guy Callendar gave a talk to the Royal Meteorological Society in which he claimed to have established that the world was warming, but he was regarded as an eccentric. The idea of global warming seemed bound for the intellectual dustbin.

Chill out

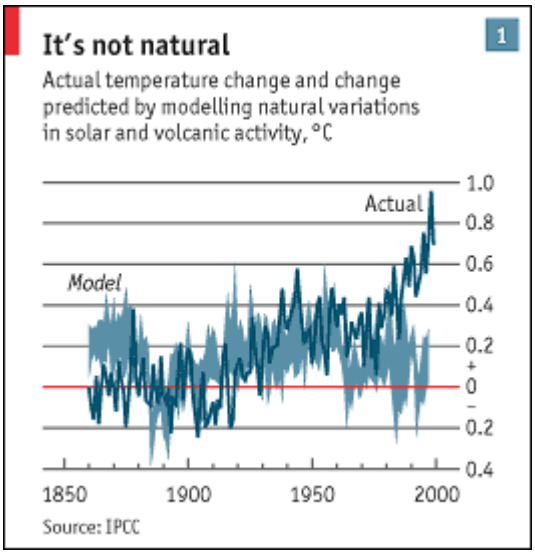
If interest in climate change was lukewarm in the first half of the 20th century, it went distinctly chilly in the second half, for the good reason that the world was getting cooler. In 1975 *Newsweek* magazine ran a cover story entitled “The Cooling World” that gave warning of a “drastic decline in food production—with serious political implications for just about every nation on Earth”—a prediction repeated with understandable glee by those who suspect the current worry is just another such scare.

The mid-20th-century blip turns out to have been the consequence of another by-product of human activity: sulphur and other airborne particles that bounce back sunlight before it can hit the Earth, thus offsetting the greenhouse effect. By the late 20th century, efforts to control that sort of pollution were having an effect. The particulate content of the atmosphere was falling, and the world began to heat up once more. The idea of global warming was retrieved from the bin and turned into one of the biggest arguments of our time.

The debate involves scientists, economists, politicians and anybody interested in the future of the planet. It is charged by the belief on one side that life as we know it is under threat, and by the conviction on the other that scientists and socialists are conspiring to spend taxpayers' money on a bogey. It is sharpened by a moral angle—the sense, deep at the heart of the environmental movement, that the consequence of individual selfishness will be collective doom: the invisible hand is a fist, and original sin an SUV.

The argument is peopled by big characters: James Lovelock, a British scientist who believes that mankind has fatefully unbalanced the delicate mechanisms of a world he calls Gaia; Bjorn Lomborg, a hyperactive Danish statistician who believes that scientists are twisting figures to scare people; Arnold Schwarzenegger, the governor of California, whose mission is to terminate climate change; and James Inhofe, chairman of the environment and public works committee in America's Senate, who says it is all nonsense.

Unfortunately, the argument is also fuelled by ignorance, because nobody knows for sure what is happening to the climate. At a macro level, modelling what is one of the world's most complex mechanisms (see article) and projecting 100 years ahead is tricky. At a micro level, individual pieces of data contradict each other. One shrinking glacier can be countered by another that is growing; one area of diminishing precipitation can be answered by another where it is rising.



Ignorance and fear have spawned an industry. Governments, international bureaucracies and universities are employing many thousands of clever people to work out what is going on. Foundations are pouring money into research. Big corporations now all have high-level climate-change advisers with teams of clever young things scurrying around to find out what the scientists are thinking and what the politicians are planning to do.

The establishment of an Intergovernmental Panel on Climate Change under the auspices of the UN was designed to silence the arguments and give policymakers an agreed line on what the future holds. But given how little is known about either the climate's sensitivity to greenhouse-gas emissions or about future emissions levels, that proved difficult. Not surprisingly, the IPCC's latest report, published in 2001, offers a wide range of predicted temperature rises, from 1.4°C to 5.8°C by the end of this century.

This huge range limits the usefulness of the IPCC's findings to policymakers. Nor has the panel's existence quietened the debate. Scepticism about its science and especially its economics has led a number of people to disagree with its findings. Some challenge the evidence that climate change is happening; others accept that it is happening, but argue that it isn't worth trying to do anything about it.

Since that IPCC report five years ago, the science has tended to confirm the idea that something serious is happening. In the 1990s, satellite data seemed to contradict the terrestrial data that showed temperatures rising. The disparity puzzled scientists and fuelled scepticism. The satellite data, it turned out, were wrong: having been put right, they now agree with terrestrial data that things are hotting up. Observations about what is happening to the climate have tended to confirm, or run ahead of, what the models predicted would happen. Arctic sea ice, for instance, is melting unexpectedly fast, at 9% a decade. Glaciers are melting surprisingly swiftly. And a range of phenomena, such as hurricane activity, that were previously thought to be unconnected to climate change are now increasingly linked to it.

This survey will argue that although the science remains uncertain, the chances of serious consequences are high enough to make it worth spending the (not exorbitant) sums needed to try to mitigate climate change. It will suggest that, even though America, the world's biggest CO_2 emitter, turned its back on the Kyoto protocol on global warming, the chances are that it will eventually take steps to control its emissions. And if America does, there is a reasonable prospect that the other big producers of CO_2 will do the same.

But first, to the science, and some of the recent findings that have sharpened people's worries.

This survey, which generated about 118 tonnes of carbon dioxide from flights, car journeys, paper production, printing and distribution, has been carbon-neutralised through the Carbon Neutral Company. The cost was £590; the money was spent on capturing methane from an American mine.

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In the loop

Sep 7th 2006
From The Economist print edition

Warming may set off mechanisms that make it warmer still

THE baffling complexity of the climate—and thus the difficulty of predicting what is going to happen to it—arises principally from its feedback loops. Scientists are finding out about ever more of them, which is why things don't seem to be getting much clearer over time.

Feedback loops may be either positive, thus reinforcing warming, or negative, countering it. Most of the main ones scientists have identified are positive; others are little understood and might go either way.

Feedback is the source of the scientists' biggest worry. Looking at previous episodes of dramatic climate change, they reckon that a bit of warming may set off mechanisms that lead to much more warming; and that once that starts happening, mankind will lose the opportunity to control the pace of change. Among the main feedback loops are:

•**Albedo**—the tendency to reflect rather than absorb light. White areas reflect sunlight and dark areas absorb it, so as ice melts and the Earth's albedo decreases, the world absorbs more energy and warms up even more.

•**Ocean absorption**. The sea absorbs CO2. Colder seas absorb more than warmer ones, so as they warm they will tend to absorb less, leaving more in the atmosphere.

•**Soil respiration**. The soil emits CO2. Warming may lead to an exponential rise in microbial activity, which would cause emissions to rise faster than the increase in vegetation could absorb them. There is a particular worry about greenhouse gases in tundra around the Arctic: if the tundra melted, they would start to be released.

•**Clouds**. Whether the feedback from clouds is positive or negative is the source of a big argument among scientists. Professor Richard Lindzen at the Massachusetts Institute of Technology, one of the few remaining serious scientists who doubt that climate change is a problem, believes in what he calls the “iris effect”: that, just as the eye's iris closes up when a bright light is shone upon it, so a warmer world will produce more water vapour which will form clouds and block out sunlight. Others argue that the clouds thus formed will merely shut in the heat.

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Those in peril by the sea

Sep 7th 2006
From The Economist print edition

Two of the big risks from climate change are a shutdown of the Gulf Stream and a rise in sea levels

A SVERDRUP, the unit in which ocean currents are measured, is one million cubic metres of water per second. The Gulf Stream, the northern part of a circulation system known as the North Atlantic Gyre, reaches 150 Sverdrups at its peak. On average, it flows at around 100 Sverdrups. North of Britain, where the surrounding water temperature is around zero, the Gulf Stream is around 8°C. With its huge volumes and its sharp temperature difference to surrounding waters, it carries so much tropical heat from the mid-Atlantic to western Europe that Norway's coastline is, in winter, 20°C warmer than similar latitudes in Canada.

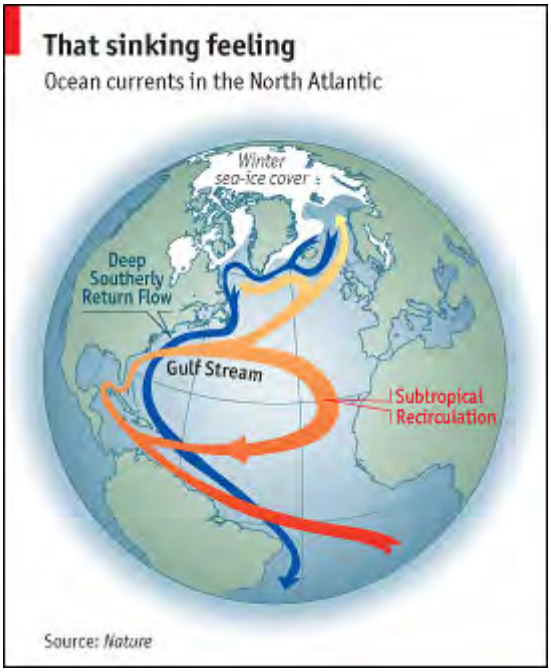
The prospects for the Gulf Stream are therefore of considerable interest not just to climatologists but also to farmers, businessmen, politicians and any western Europeans who prefer mild winters to the prospect of living somewhere like Newfoundland. So a recent paper suggesting that it was slowing down aroused plenty of interest.

The Gulf Stream is driven both by the rotation of the Earth and by a deep-water current called the Thermohaline Circulation. The THC pulls warm salty water from the tropics northwards. It gradually loses heat as it does so and, as it approaches the Arctic, begins to sink because it is saltier, and therefore heavier, than the surrounding water. As it sinks, it pulls in more warm water from the tropics. The deeper, colder water returns to the tropics through the Deep Southerly Return Flow, which passes by Florida, and the Subtropical Recirculation, which curls round the west coast of Africa.

There are good reasons to be nervous about the Gulf Stream's future, because it has not been reliable in the past. Since the most recent ice age 20,000 years ago, it has packed up several times—most recently, it seems, around 8,200 years ago, when a sudden flood of fresh water from a North American lake tipped into the North Atlantic. The fresh water seems to have diluted the Gulf Stream's saltiness and thus weakened its flow.

That, fear climate-change watchers, is what could happen as the Arctic ice melts. But the models did not predict that it would start happening yet, which is why the climatological world sat up when a paper was published last year claiming that the flow appeared to be slowing.

The paper, by Harry Bryden and some colleagues at Britain's National Oceanography Centre in Southampton, was based on five sets of measurements of the THC taken over half a century. The first three showed no discernible change in its speed; but results in 1998 and again in 2004 suggested a noticeable slowing, which Dr Bryden and his colleagues estimate at 30% of the current's volume.



Some scientists, such as MIT's Professor Carl Wunsch, caution against drawing conclusions from so few data points. “The oceans are like the atmosphere. The system is exceedingly noisy. You get weather in the oceans like you get weather in the atmosphere. This paper is based on five crossings of the Atlantic over 47 years. It's as though you went out on five different occasions in five different places in North America over half a century and measured the wind speed. You say there's a trend. There's a trend in your figures, but you have no evidence of a secular trend. Much of the community would say you have five data points.”

Professor Wunsch is not a climate-change sceptic. He believes that there will be “serious future climate change: it's almost guaranteed,” and he thinks there should be attempts to mitigate it. But he is fed up with too much being read into thin research.

Although the data about what is happening now may not be solid enough to bear too much interpretation, the models' predictions are not reassuring either. A paper by scientists from the Hadley Research Centre of Britain's Meteorological Office and others, presented earlier this year at a symposium on “Avoiding Dangerous Climate Change”, rated a shutdown of the Gulf Stream over the next century as “unlikely”, but reckoned that a slowdown of up to 50% was likely. Another paper presented at the same meeting saw a two-in-three chance that it would shut down over the next 200 years.

Eyevine

Now you see it, now you don't: Blomstrandbreen glacier, Norway, 1918 and 2002

How much would a shutdown matter? That is another thing that the big guns of climate change disagree on. “You could have icebergs around Britain,” says David Griggs, director of climate research at Britain's Met Office. Daniel Schrag, professor of geochemistry at Harvard's department of Earth and planetary sciences, has a different take. “Models that predict THC shutdown caused by warming never produce overall cooling, but only reduce the warming effect in coastal areas of Scotland and Scandinavia.”

The other marine subject that has caught people's attention recently is the rise in sea levels. So far this

has been relatively small, but if it accelerates, it could become the most serious consequence of climate change.

Brimming over

In March 2002 Ted Scambos, a scientist from the University of Colorado, was examining images from NASA's Modis satellite and noticed something odd going on at the Larsen B ice shelf (a floating extension of a glacier) on the Antarctic Peninsula in the west of the continent. He alerted the British Antarctic Survey in Cambridge, which sent a ship over to have a look. Meanwhile, an Argentine glaciologist based in Antarctica, Pedro Skvarca, took an aeroplane over the shelf. That is how pictures of the first recorded collapse of a big Antarctic ice shelf were obtained.

Most of the ice in the Arctic is sea ice, so when it melts the sea level doesn't change much. Ice in Greenland and Antarctica, by contrast, is mostly on land. Greenland's ice sheet is up to 3km (1.9 miles) thick; Antarctica's 4.2km. If all of Greenland's ice were to melt, sea levels would rise by around 7 metres; if West Antarctica's were to go, that would add another 6 metres; and if East Antarctica's ice melted—which nobody thinks likely for the foreseeable future—sea levels would go up by a devastating further 70 metres. Even a 1-metre rise would flood 17% of Bangladesh's land mass and cause serious problems for coastal cities such as London and New York.

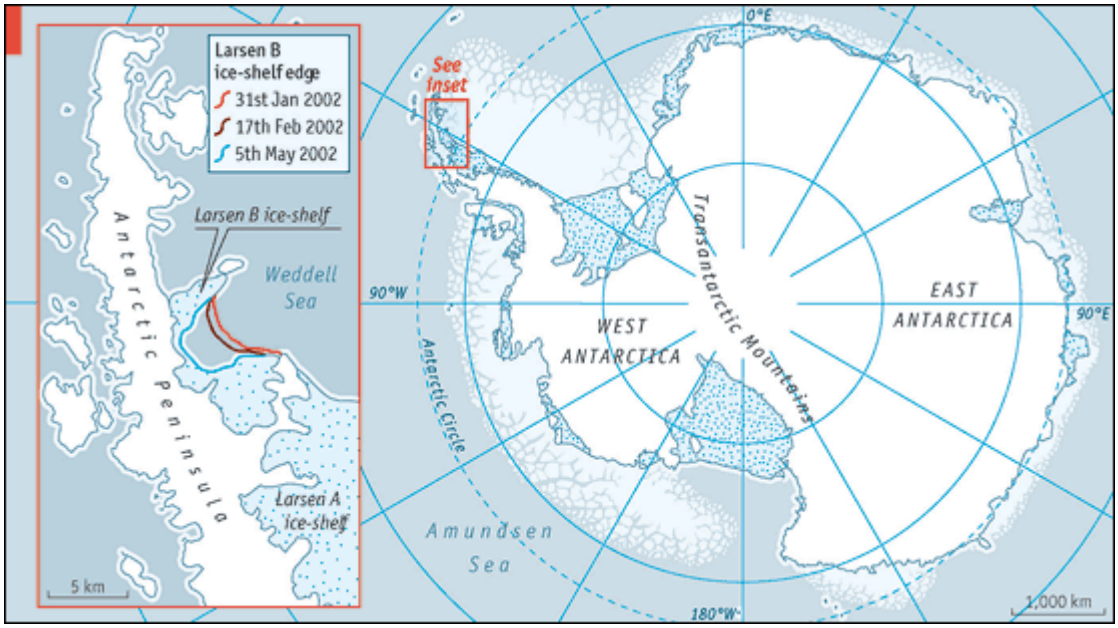
The sea level has varied sharply during the Earth's history. At the peak of the most recent ice age, around 18,000 years ago, it was 130 metres lower than it is now; but through most of the planet's history it has been much higher. Over the past 100 years, it seems to have risen, on average, by about 10-20cm, but measuring that accurately has proved surprisingly hard.

The sea is not like a bath. If you pour water in at one end, it does not necessarily spread itself evenly. Sea levels are currently falling in the northern Pacific, the north-west Indian Ocean and near Antarctica; they are rising over most of the tropics and subtropics. That is because some seas are warming (and hence expanding) and some cooling (and hence contracting), and because the wind shifts water around.

At the same time, land is moving up and down, because parts of the northern hemisphere are still bouncing back from the weight of the ice sheets they were carrying 20 millennia ago, and the southern parts of those continents are going down as the northern parts go up. So Scandinavia is rising by around a metre a century; Loch Lomond in Scotland is rising by around 1mm a year; and London is sinking by about the same amount.

Until 13 years ago, all the available data on sea levels were collected by hand from ancient tide-gauges. But in 1992 satellite data became available that allowed sea levels to be measured in the middle of the oceans as well as at their edges. Those data suggest that sea levels are currently rising by around 3mm a year; land-based data suggest that the rise accelerated from an average of around 2mm a year over the past century to 4mm in the 1990s.

Sea levels are rising for two reasons—because water expands as it warms, and because ice is melting. That is where Larsen B, and some new findings from Greenland, come in.



The collapse of Larsen B was not, in itself, all that important. What matters is the relationship of ice shelves to the glacier and the ice sheet behind them. “If ice sheets are cathedrals,” says Richard Alley, a glaciologist at Penn State University, “ice shelves are the flying buttresses that secure them.” Ice shelves are especially vulnerable because there is water underneath them; and if the water warms, the ice shelves get thinner. Mr Alley reckons that for every 1°C increase in water temperature, ice shelves shrink by 10 metres.

Galloping glaciers

Scientists knew that Larsen B was deteriorating, but had not expected what happened after it collapsed. It turned out to have been acting as a brake on the glaciers behind it. When it went, they started moving faster; and the faster they move, the faster they melt. According to data analysed by Dr Scambos, the four glaciers behind Larsen B were moving between two and six times as fast in 2003 as they were in 2000. Another paper, by Eric Rignot, a NASA scientist, showed speeds increasing by up to eight times. Even so, the pace remains glacial: before the shelf collapsed, the ice was travelling at a few hundred metres a year; after, at a couple of kilometres.

In southern Greenland, too, change is afoot. Jakobshavn Isbrae, Greenland's largest glacier, which drains 6.5% of Greenland's ice-sheet area, doubled its speed between 1997 and 2003. It is so large that its contribution to sea-level rise is measurable: about 0.06mm a year, or roughly 4% of the rate of sea-level increase in the 20th century.

However, the rate of glacier melt by itself does not determine sea levels. The big issue is the “mass balance” of ice in Greenland and Antarctica—whether, overall, ice sheets are growing or shrinking. There are no signs of glaciers in northern Greenland or East Antarctica speeding up. In West Antarctica, one of the three main outlets (which includes the glaciers behind Larsen B) seems to be speeding up, but another (the most volatile) may be slowing down. Meanwhile, snow falls on ice sheets, replacing some of the lost ice.

Nobody knows what is happening to the mass balance of Antarctica. Greenland's does seem to be shrinking very slightly—by around 0.4mm a year, in sea-level equivalent. That would be only 4cm a century, if the rate stayed constant. But there is no reason to think that the rate will stay constant—nor, if it did accelerate, that anything could be done to stop it.

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Bringing back the barley

Sep 7th 2006
From The Economist print edition

Mild weather in Greenland pleases some but not others

THE Middle Ages were unusually warm in northern Europe, and it was during that period that the Vikings settled in Greenland. They cultivated land, growing mostly barley. The climate then cooled down, which made the place too chilly for arable farming. These days Greenland's 56,000 people rely largely on sheep farming in the south, hunting in the north and fishing in the west.

Or at least they did until the world started warming up again. Average temperatures in Greenland have risen by 1.5°C over the past 30 years. The barley is back. Kenneth Hoeth has been growing it, but only as an experiment. Several farmers in southern Greenland are now farming potatoes, turnips and iceberg lettuces commercially. Mr Hoeth is trying out other crops: he is pleased with his Chinese cabbage, which he says is particularly crispy.

The weather has helped sheep farming, too. Sheep are kept in barns all winter and have to be fed with hay or other fodder. Because grass grows more plentifully these days, sheep farmers need to import less fodder, so costs have fallen. The only downside, says Mr Hoeth, is bugs: caterpillars are proliferating. But, he says, “generally the warming is good for us.”

Not everybody in Greenland is so pleased, though. Hunters in the north, who catch narwhals, seals, walruses and polar bears, use dog sledges, which are tricky to use when the ice melts and the soil is mushy. The weather is less predictable, too. “Earlier,” says Alfred Jacobsen, Greenland's deputy minister for environment and nature, “local people could count on the weather. Now they don't know whether there will be a north wind, which brings stable weather, or a south one, which brings snowstorms.”

And for the fishermen in the west, who use big trawlers to catch shrimp, it could go either way. “Ice can be a problem for us,” says Jens Lyberth of the Fisheries and Exports branch of the Greenland Employers' Association. “Less ice is less problem.” And cod, which used to be plentiful until the 1960s, then disappeared, are coming back; but cod eat the shrimp the fishermen are after.

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Reaping the whirlwind

Sep 7th 2006
From The Economist print edition

Hurricanes used to be thought unconnected to climate change. Now a link is emerging

CLIMATOLOGY was once a rather peaceful science, insulated by the long-term nature of its inquiries even from the passions aroused by weather forecasts. Now that it is being asked to predict the future of the world, it has understandably become politicised and argumentative.

The science of hurricanes is a case in point. Hurricanes are the main climatological hazard on America's wealthy east coast, so predicting them and following their progress has long been a sizeable industry. That has been especially true since 1995 when, after a quiet three decades, the frequency and intensity of hurricanes in the Atlantic picked up. Interest in them has been especially sharp since 2004, the most active year on record. The following one, more turbulent still, brought Hurricane Katrina, which did more economic damage than any previous weather event anywhere. So politicians, businessmen and the public have all turned to hurricane scientists to tell them what is happening.

But establishing trends in hurricane frequency and intensity is much more difficult than in temperature. Whereas temperature can be measured every day, all around the world, with hurricanes the data points are far fewer and further between. What's more, the records before 1970 are poor. Nevertheless, an increase in the number of storms in the 1940s and 1960s, followed by a quiet period, and the subsequent increase in activity in the 1990s, had led to the notion of the Atlantic Multi-decadal Oscillation (AMO), a little-understood cycle believed to be caused by changes in the ocean, which was responsible for hurricanes.

The AMO was widely accepted in the hurricane business. Climate models did not predict an increase in hurricane activity as a result of global warming, and the IPCC's 2001 report said there was no evidence of a connection between the two.

But two influential papers published in 2005 argued otherwise. One, by Peter Webster, Judith Curry and colleagues, said the data supported the idea that there was a long-term increase in the number of category four and five (intense) hurricanes; the other, by Kerry Emanuel, professor of tropical meteorology and climate at MIT, suggested that the intensity of Atlantic storms had on average doubled over 30 years.

The Webster paper was a surprise, but Professor Emanuel's came as a real shock. He is a big noise in the hurricane world and had been a supporter of the AMO. “Initially,” he says, “I was very enamoured of the idea of natural cycles. But we've gone back to look at the data, and what you see is anything but a natural cycle.”

Oscillating theories

Hurricanes are closely related to sea-surface temperatures. These rose during the first half of the 20th century, then fell back, then started rising again in the 1970s. Hurricane activity followed the same pattern, which prompted the idea of the oscillation. But Professor Emanuel now believes that what looked like an oscillation is, in fact, a long-term trend, masked in the 1950s-70s by an increase in atmospheric pollution by particles such as sulphur that led to a period of global cooling. Now that sulphur levels have been reduced, atmospheric temperatures are on their way up again—and so are sea-surface temperatures and hurricane activity.

Not everybody agrees. Bill Gray, a professor of meteorology at Colorado State University, who runs a hurricane-forecasting centre and is the man America always turns to when a big hurricane threatens, doubts the methods of the climatologists. “I'm a great believer in computer models,” he told the 27th Conference on Tropical Meteorology earlier this year. “I am—out to ten or 12 days. But when you get to

the climate scale, you get into a can of worms. Any climate person who believes in a model should have their head examined."

But mostly the hurricane world has come round to the view that global warming, by raising the sea-surface temperature, is causing the increase in hurricane activity. "There's no denying that there's an apparent oscillation in the North Atlantic," says Tom Karl, director of the National Climatic Data Centre of America's National Oceanic and Atmospheric Administration. "But the increase in sea-surface temperatures has clearly had an important role—and they're not simply due to natural oscillations. It's very clear that there is a human contribution in play."

AP

Thicker and faster

Debate centres mostly on the question of degree. Robert Muir-Wood, head of research at Risk Management Solutions, a firm that creates catastrophe models for use in the insurance industry, says that "if you ask climatologists how much of the extra activity is the result of climate change, the range of opinion is between 10% and 60%."

The insurance industry has a strong interest in these matters. In 2004 and 2005, the two most active hurricane years on record, weather-related losses amounted to $145 billion and $200 billion respectively. The big losses of the past two years have pushed reinsurance prices up. "When events occur, prices rise," says Christian Mumenthaler, chief risk officer with Swiss Re. "Post-Katrina prices in this bit of the reinsurance business have doubled. Such events usually pay themselves back."

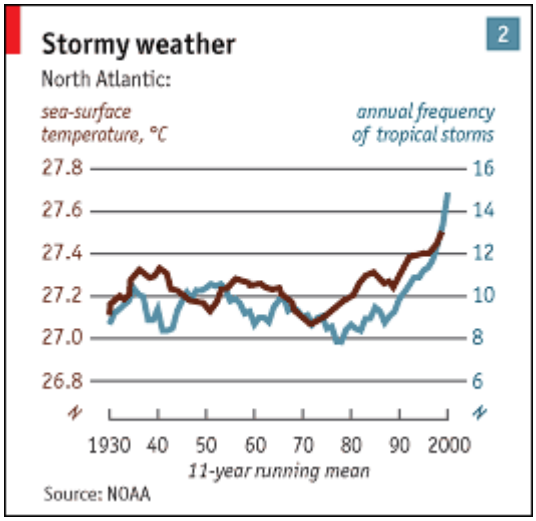
If prices are rising, that should be a signal to people and businesses to avoid settling in risky areas. The economic centre of the hurricane business is Florida, which is both the most vulnerable part of America and the most valuable. In 2004 the total value of insured coastal property in Florida was $1.937 trillion, compared with $1.902 trillion in New York. Unfortunately, the signal is not getting through to homeowners in Florida, because the government is cushioning the blow. Insurance companies in America may not set their own prices. The rates they charge customers (and indeed the models on the basis of which they calculate their rates) are regulated by state governments. "Communism survives in three parts of the world," says Mr Muir-Wood: "North Korea, Cuba and the American insurance market."

Not surprisingly, insuring property in Florida is not very profitable. According to the Insurance Information Institute, the cumulative underwriting loss on Florida homeowners' insurance in 1992-2004 was $8.6 billion. As a result, insurers are going bust or pulling out. Ten collapsed after Hurricane Andrew in 1992; three companies owned by Poe Financial Group, Florida's second-biggest home insurers, went into liquidation this summer. Allstate decided last year not to renew 12.5% of its 758,000 policies in Florida.

But Floridians need not fear being left without insurance in a hurricane. The state provides cover, through the Citizens Property Insurance Corporation. Some 900,000 Floridians now get their home insurance from Citizens, which taps the taxpayer to cover its deficits. In May, Jeb Bush, the state's governor, signed a bill for a $715m subsidy to help the company cover last year's $1.6 billion hole. According to Robert Hartwig, chief economist of the Insurance Information Institute, bailing out Citizens requires "grandmothers living in trailer parks on fixed incomes in [inland] Gainesville to subsidise million-dollar homes in Marco Island".

Thanks to subsidised insurance, the risks of living on Florida's coast are not reflected in property prices. In 2005—the year after the most damaging hurricane year ever—six of the nine metropolitan areas with the fastest-rising house prices in America were in Florida. The state's population is expected to rise by 52% between 2003 and 2030, as against 21% for the country as a whole. The insurance industry is not impressed. "You've got to send a proper price signal," says David Unnewehr of the American Insurance Association. "You can't subsidise development through insurance."

What would Florida look like if the price signals were getting through? More like Grand Bahama, probably, which is covered by the British insurance market. The Queen's Cove canal estate in north Grand Bahama, which has been flooded three times in six years, is no longer insurable. People are moving out and new houses are being built on stilts.



The foolishness of pouring money into vulnerable areas is one issue that unites those divided hurricane scientists. In July, a group including Mr Emanuel and Phil Klotzbach, Bill Gray's sidekick, put out a joint statement. “We are optimistic”, they said, “that continued research will eventually resolve much of the current controversy over the effect of climate change on hurricanes. But the more urgent problem of our lemming-like march to the sea requires immediate and sustained attention. We call upon leaders of government and industry to undertake a comprehensive evaluation of building practices and insurance, land-use and disaster-relief policies that currently serve to promote an ever-increasing vulnerability to hurricanes.”

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Where the wild things are

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Not where they used to be, as the world gets warmer

Corbis

A chequered future

EDITH'S CHECKERSPOT is an unremarkable brown, white and black spotted butterfly whose main distinguishing characteristic is that it is watched, with obsessive but benevolent attention, by Camille Parmesan, a biologist at the University of Texas. Ms Parmesan is troubled by what is happening to the butterfly. The populations at the southernmost end of its range, in California, have been dying out. The vegetation it lives on is getting dryer, which makes it hard for newborn caterpillars to survive.

“The tiny, one-to-two-day-old caterpillars were unable to walk the inch or more to nearby plants and thus starved to death,” records Ms Parmesan in a paper on the subject. (The source is affectionately cited as: Parmesan, personal observation.) The species' range has extended 55 miles (88km) northwards, but that is not much help to the three endangered subspecies—the bay checkerspot, Taylor's checkerspot and Quino checkerspot—living at the southern end of its range.

Whereas people these days are mostly able to adapt their environment to suit themselves, the world's other inhabitants still have to adapt themselves to their environment. When circumstances change, they adjust in two main ways: by changing the timing of important life events, such as hibernation, migration and breeding; or, like Edith's checkerspot, by moving to find more comfortable living quarters.

Ms Parmesan and Gary Yohe of Wesleyan University, Connecticut, who looked at data on how species were adapting, found that, of a total of 677, nearly two-thirds had brought forward the important events in their calendar. The Mexican jay in the Chiricuahua Mountains in Arizona, for instance, is breeding ten days earlier than it was 30 years ago. Tree swallows' breeding season advanced by an average of nine days between 1959 and 1991. In the Rocky Mountains, the yellow-bellied marmot is emerging from hibernation 23 days earlier than it did in the 1970s.

Of the 434 species that had moved their range, four-fifths had moved northwards or to higher ground. The red fox, for instance, has colonised an extra 600 miles of Baffin Island. That's fine for the red fox, which, as the owner of any British dustbin knows, is in no danger of dying out, but less good for the Arctic fox at whose heels it is snapping.

Still, there is only so far a species can move, as the polar bear has found to its cost. Thinning Arctic ice is making hunting more difficult for it, and there is nowhere colder to go. The only long-term study of a polar-bear population—from Hudson Bay, in Manitoba in Canada—suggests that the animals are, on average, 15% thinner than they were 30 years ago. The population has dropped by 17% in the past ten years. America's Fish and Wildlife Service is thinking of putting the polar bear on the endangered-species list.

Some species, of course, are doing very nicely out of climate change. Warming aside, plants are likely to flourish with more carbon dioxide around. Northern areas are likely to see an increasing diversity of species.

There is, however, a common difficulty for all animals and plants: they find it harder to adapt these days because people get in the way. Cities, roads, farmland and all the other manifestations of human civilisation leave less space for other species. That is one reason why some of them are in danger of dying out. Chris Thomas, professor of conservation biology at Leeds University in Britain, and colleagues,

reckon that, if the IPCC's mid-range climate-change scenario (a 2-3°C increase by 2100) is right, between 15% and 37% of the species whose prospects they modelled will be extinct by 2050.

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Dismal calculations

Sep 7th 2006
From The Economist print edition

The economics of living with climate change—or mitigating it

SCIENTISTS are better at getting headlines than economists are: doom for the planet makes better copy than cost-benefit analyses. That may be why some economists feel that the issue has been captured by economically illiterate climatologists who do not seem to understand that mitigating climate change means spending real money now in exchange for uncertain benefits in a remote future. They have been working hard to put figures on the costs and benefits of climate change and of trying to mitigate it.

That has not been easy. Economists struggle under a cascade of uncertainties—how much carbon dioxide the world goes on emitting (which itself depends on whether governments pay attention to the scientists' warnings); how fast temperatures will increase in response to greater concentrations of carbon dioxide (which depends on feedback mechanisms); what effect climate change will have on economies (which depends on how good people are at adapting to it); and many more.

Not all the change will be bad. An extra couple of degrees might not do northern Europe any harm. Russia could benefit hugely from a bit of warming: large parts of the country that are currently uninhabitable could become comfortable enough to live in. The 25% of the world's undiscovered oil and gas reserves that are reckoned to be in the Arctic, much of them in Russia, would become easier to get at. According to one estimate of the costs and benefits of climate change, by Robert Mendelsohn, a professor at Yale University, a 2.5°C increase in temperature would increase GDP in the former Soviet Union by 11% (compared with a 0.3% rise in North America). A less optimistic estimate by the father of climate-change economics, William Nordhaus, published in 2000, predicts a reduction in American GDP of 0.5%.

The world as a whole looks likely to lose out. In Mr Mendelsohn's model, global output falls very slightly, by 0.1% a year. In Mr Nordhaus's model, it drops by 2%. That is because Africa and India pull the average down: Mr Mendelsohn has Indian GDP falling by 2% and no figure for Africa; Mr Nordhaus has India dropping by 5% and Africa by 4%. It is not just that Africa and India are already hot; being poor, they are also more dependent on agriculture than the rest of the world; and agriculture is more vulnerable to climate change than are investment banking or car assembly.

Estimates of the effect of climate change on global output are rising, partly thanks to new work on economics and geography, in particular by Jeffrey Sachs, director of Columbia University's Earth Institute, and Mr Nordhaus, who has come round to the view that temperature has a profound impact on economic development. Putting more weight on temperature as a factor in growth raises estimates of the damage from climate change. In his latest paper on the subject, Mr Nordhaus puts the damage to the global economy of a 2.5°C temperature rise at 3% of global output, up from the 2% he estimated in 2000.

The other reason that estimates are tending to rise is the science. More papers suggesting that the glaciers are melting and the Gulf Stream is slowing mean that more economists are building outlying possibilities of catastrophe into their calculations of potential damage.

The bill

So how does the estimated cost of climate change compare with the cost of mitigating the effects? Unsurprisingly, that is not easy to calculate either. First, what is meant by mitigation? Many experts would settle for stabilising the carbon content of the atmosphere at around 550 parts per million. There is no particular magic to that figure, but given that carbon concentrations are now at 380ppm, it looks achievable and does not make most scientists' hair stand on end.

Forget cheap energy

3

Illustrative costs of emissions-reducing technologies relative to a marker*

Technology	Marker	Cost/unit	Cost of marker	Cost of substitute	
				short-term‡	long-term
Nuclear	Natural-gas combined-cycle power plant	US cents/kWh	3.5-4	6	5
Electricity from fossil fuels and carbon capture and storage	Natural-gas combined-cycle power plant	US cents/kWh	3.5-4	5	6
Wind	Natural-gas combined-cycle power plant	US cents/kWh	3.5-4	5	6
Photovoltaic†	Grid electricity	US cents/kWh	10	15	8
Biofuels	Petrol	$/gigajoule	12	15	15

*The technology that would be displaced by the new technology
†Solar input=2000 kWh/m^2 ‡10 years

Source: Dennis Anderson, Imperial College, London

The costs of mitigation depend principally on three factors. First, how far energy demand can be reduced by relatively cheap energy-efficiency measures. Plenty, according to the International Energy Agency: new buildings, for instance, can be made 70% more efficient than average existing ones. The IEA reckons that by 2050, energy-efficient technologies can bring emissions back to 2000 levels at moderate cost.

The second factor is how fast the price of renewable technologies will fall. The gap between some of them and fossil-fuel-based energy should shrink (see table 3) as technologies mature and manufacturing volumes rise. That's already happened for some renewables. The cost of wind-power generation, for instance, has come down from 8-10 cents to 3.5-4 cents per kWh since 1990 because of better-designed turbines and higher volumes.

The third factor in the cost of mitigation is how fast emissions are brought down. Worried scientists argue for doing this as swiftly as possible. Cost-conscious economists plead for gradualism. They point out that, as CO_2 hangs around in the air for up to 200 years, a tonne produced now is not much worse than a tonne produced in 20 years' time.

Moreover, cutting emissions gradually is a great deal cheaper than doing it quickly, because machinery can be replaced with new, lower-emissions varieties at the end of its life-cycle instead of being written off prematurely. Richard Richels of the Electric Power Research Institute reckons that the cost of stabilising emissions at 550ppm would be a quarter that of doing so at 450ppm, which would require existing plant to be scrapped.

Panos

There's nowhere else to live

The range of estimates of the cost of mitigating climate change is not quite as large as that of estimates of the damage caused by climate change, but big enough to make it hard to decide between action and inaction. Britain's House of Lords report on the economics of climate change came up with a range of 0.2-3.2% of global output a year for the cost of mitigation, but pointed out that unless developing countries start doing their bit, rich countries will end up spending more. Some consider the House of

Lords figures too high: evidence to Sir Nicholas Stern, a former chief economist at the World Bank and head of Britain's Government Economic Service, who is due shortly to report on the economics of climate change, suggests costs in the range of 0.4%-1% of global GDP.

Beyond price

But deciding whether it is worth taking action against climate change is not as simple as setting the costs of climate change against the costs of mitigation. There are a couple of ethical questions that shift the argument towards mitigation.

One involves the difficulty of doing cost-benefit analysis across borders. Money is worth more in the poor world than it is in the rich world. The sharpest example of that is the implicit price of life: the amount of money spent on health care in Britain and India implies that the life of a Briton is worth more than the life of an Indian. Politically, however, that is hard to sustain; indeed, the first meeting of the IPCC nearly fell apart on this question. Many economists therefore go for some “equity weighting”—putting a greater value on a dollar of damage in India than in Britain. And, because climate change is likely to do more damage to India than to America, the higher the equity weighting, the higher the social cost of carbon.

The other question concerns doing cost-benefit analysis across many generations. In standard cost-benefit analysis, each pound or dollar spent this year is reckoned to be worth slightly more than one spent next year, partly because economic growth will usually make people richer next year than this. This preference is expressed in a discount rate which, depending on interest rates, is usually set at somewhere between 3% and 6%. So with a discount rate set at a normal level, the benefits beyond half a century barely count. This usually does not matter much, because most of the investments in question have a time horizon of 20-50 years. But climate change is not expected to do much damage within the next 50 years, so at a normal discount rate mitigating climate change does not seem worthwhile.

Some economists try doing their sums instead with a discount rate which holds future benefits equal in value to current ones. That gives a much higher social cost of carbon than a normal discount rate, so mitigating climate change becomes correspondingly more attractive. This is justified partly through economics—that the consequences of not taking action may be so catastrophic that normal economic growth cannot be assumed—and partly through ethics—that the interests of future generations are worth as much as those of the current one.

Critics such as Bjorn Lomborg, author of “The Skeptical Environmentalist”, question the grounds for giving this problem such special treatment. Given the uncertain returns from taking action against climate change, they argue, the money would be better spent on investments that have clear benefits. If climate change is likely to do most damage in poor countries, why not instead spend the money on, say, education there? Not only would that benefit poor people now, it would also equip them better to deal with the risks that climate change brings.

After all, the reason why Bangladesh is so vulnerable to a one-metre rise in the sea level is not just its flatness; it is also its poverty, as a result of which too many of its people live on subsistence agriculture around the Bay of Bengal. If Bangladesh were South Korea, more people would be working in offices and factories and living in cities. The best protection for Bangladesh, in other words, is development. And anything (including climate-change mitigation) that reduces the global rate of economic growth is likely to slow development in Bangladesh, thus making the place more vulnerable to climate change than it otherwise would be.

That may well be true. But the consequences of climate change could amount to more than a one-metre rise in the sea level. It is quite possible that the Gulf Stream will switch itself off, that the ice sheets in Greenland and West Antarctica will start losing mass quickly, and that the release of methane from tundra will send temperatures spiralling upwards. If those disastrous outlying possibilities are included in the calculations and the potential damages are averaged over the moderate to the catastrophic, the protective effects of a developed economy fall and the benefits of action—to both the rich and the poor world—rise.

It is those outlying possibilities that have persuaded some economists that it is worth trying to mitigate climate change. As Cameron Hepburn of Oxford University says, “I'm not especially worried about the mean. It's the tail. If governments should ever be risk-averse, it's in the face of this sort of distribution. You can think about the risks as similar to those from terrorism.”

Sir Nicholas Stern seems to agree. In a paper published in *World Economics* in June, he writes:

> Policymakers need to take into account the risks of greater dangers as well as central expectations, because the consequences if these risks were to materialise would be very serious. For example, extreme, abrupt and dangerous climate-change scenarios based on loss of carbon sinks and melting permafrost may not accord with the climate scientists' central expectations, but their possibility must be recognised when considering the appropriate vigour of policy responses. The prudential approach is common in other areas of policy, from defence to financial stability, and warrants more public action to mitigate climate change, not less.

Out of the fog of uncertainty over the economics of climate change, the outline of a few conclusions emerges. Global warming poses a serious risk, and the costs of mitigation are not so large as to be politically unthinkable. Mitigation is better done gradually than swiftly, because the faster it is done, the more it will cost. That said, the economics of the subject are too uncertain for policymakers to lean heavily upon them, so in the end it will be the politicians who decide.

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Selling hot air

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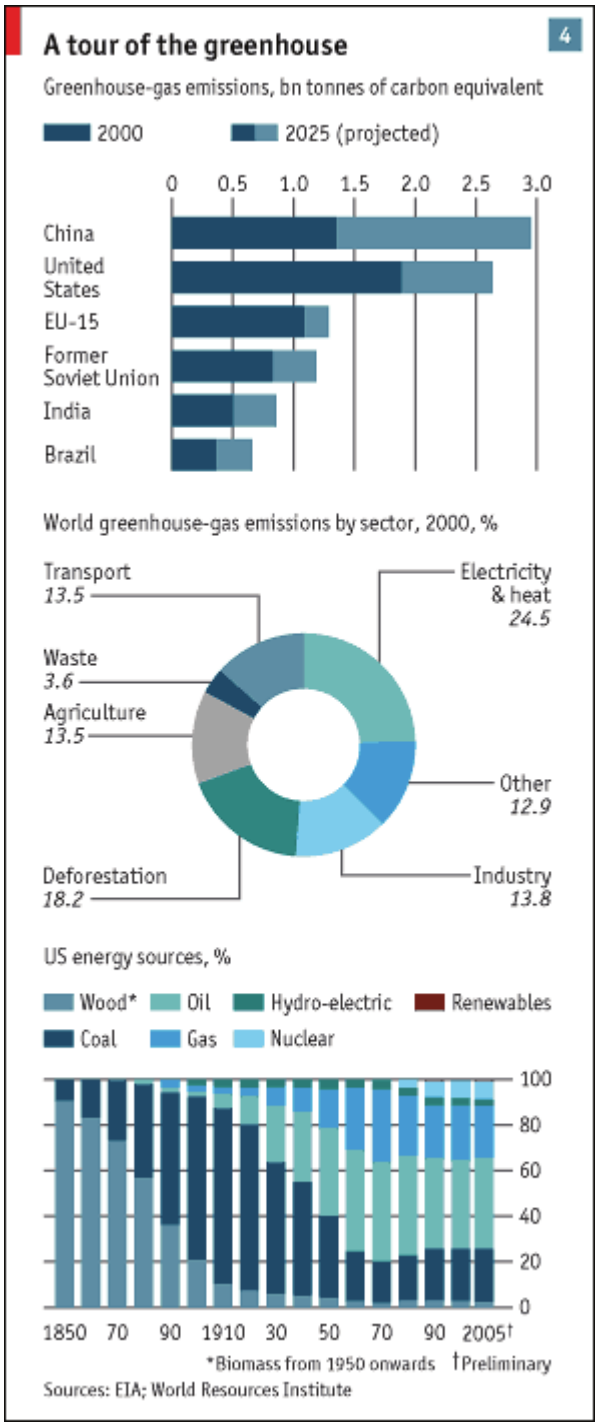
From The Economist print edition

Kyoto's main achievement was to create a market in carbon. It's flawed, but better than nothing



THE huge hall at the Kölnmesse, Cologne's massive conference centre, looks like any other trade fair: rows of sellers' booths, some with buyers milling around them, some deserted. The participants' costume is a little unusual—not just the standard suits, but also chinos and T-shirts with green slogans. But what is being sold is very different: industrial gases to be captured from Chinese factories, trees to be planted

in Africa, methane to be extracted from pig-effluent in Brazil. This is the carbon market, the main achievement of the Kyoto protocol.

Kyoto was a hard-fought attempt to do something immensely difficult: create a global mechanism for solving a long-term problem. Not surprisingly, its achievements have been limited. America and Australia did not ratify the treaty. Canada looks as though it may fail to comply. It signed up for a 6% reduction below 1990 levels by 2012, but the latest figures suggest that it is now running around 23% above 1990 levels. According to the new environment minister, Rona Ambrose, “it is impossible, impossible, for Canada to reach its Kyoto targets.”

Japan is supposed to be cutting its emissions to 6% below 1990 levels. It has no mandatory scheme, but many companies are participating in a voluntary one. Still, emissions are currently running at 24% above 1990 levels, so it will probably have to buy credits from other countries.

The EU has taken Kyoto most seriously. In 2005 it launched the European Emissions-Trading Scheme (ETS), which is supposed to cut emissions from the EU's five dirtiest industries. Most big European countries have additional schemes to penalise big CO_2 emitters and to boost renewables, which is why wind farms are sprouting all over Europe. Some big European countries, such as Germany, France and Britain, are either near to meeting their targets or have already done so by cutting domestic emissions. Others, such as Spain and Italy, are further behind.

America was heavily involved in the design of the Kyoto protocol, and insisted that it should include the possibility of a market in emissions credits, on the ground that its trading scheme to reduce sulphur-dioxide emissions had been a big success. Europe reluctantly agreed and, once America walked away from Kyoto, turned out to be the mainstay of the carbon market that the protocol has created.

The carbon market works like any other commodity market: companies trade and the market sets prices. But it is unusual in that the commodity being bought and sold does not exist: it is the certified absence of carbon emissions. The market is big, and growing fast. In the first half of 2006, carbon to the value of €12 billion ($15 billion) was traded, five times more than in the same period in 2005.

There are two parts to the carbon market. The first, and largest in terms of cash, is the trade in allowances handed out to companies in the EU's five dirtiest industries under the ETS. Those companies have also been given emissions-reduction targets, which they can meet by cutting their own emissions, or by buying allowances from other companies, or by purchasing credits from developing countries. That is the second bit of the carbon market. The trade in allowances does not actually reduce emissions. The trade in developing-country credits does.

The Carbon Fair in Cologne, organised by the World Bank, is the annual get-together of the second bit of the market. The buyers are from the participants in Europe's ETS and Japan's voluntary-reduction scheme. The sellers are developing countries. The rich countries that ratified Kyoto are expected to produce 3.5 billion tonnes of carbon above their targets by 2012, so the prospects for sellers look good.

Some of the sellers at the Kölnmesse are more popular and better organised than others. The Chinese state planning committee stall has a glossy 200-page book crammed with projects, and a crowd of potential buyers. The man on the Senegalese stall has a photocopied piece of paper with six projects, and no customers.

The middlemen are niche investment banks, such as Climate Change Capital and Natsource, and project-management companies, such as Camco and AgCert. Camco, which floated earlier this year, works mainly in China. It identifies factories that emit lots of greenhouse gases and works out how to cut emissions; AgCert builds sealed pools to contain the pig-effluent in Brazil and Mexico, captures the methane it produces and burns it to produce electricity.

Projects have to be certified by the UN. Most involve cutting emissions not of CO_2 but of more potent greenhouse gases. HFC, for example, an industrial gas, has 11,000 times the greenhouse effect of CO_2. Some 58% of the credits sold between January 2005 and March 2006 were for HFC projects. Capturing it costs little—under $1 per tonne of CO_2-equivalent—and selling it is lucrative. Thanks to the insatiable demand for credits, developing-country sellers have been getting up to $24 a tonne. Two Chinese deals alone, set up by the World Bank, which has put together a consortium of buyers, are worth $930m. At current prices, China is reckoned to have about $6 billion-7 billion-worth of HFCs that could be captured.

Not surprisingly, given both Chinese efficiency and the amount of dirty industry in the country, two-thirds of the deals signed between January 2005 and March 2006, by value, were with China. Keen to keep hold of the cash for its own purposes, the Chinese government has slapped a 65% tax on HFC projects and is funnelling the money into a “sustainable development” fund. “Sustainable development!” snorts a Chinese official. “It'll be spent on infrastructure.”

All right for some

Observers have three concerns about the carbon market. The first is about profits and prices. Giving the ETS allowances away (rather than auctioning them) made the scheme easy for the power-generators and other polluters to swallow. But it also, in effect, handed them wads of cash: they simply passed the extra costs on to consumers and pocketed the money. According to a report by IPA Energy Consulting, Britain's power-generation sector alone made a profit of around £800m ($1.5 billion) from the scheme in its first year.

Meanwhile, power prices went up steeply. According to a paper by Jos Sijm of the Energy Research Centre in the Netherlands, when allowances were €20 a tonne, European generators passed on between €1 and €19 per MWh to customers, depending on the structure of the market and the sources of electricity. In France, where the price is determined largely by carbon-free nuclear generation, they passed on least. In Germany, where it is largely determined by coal, they passed on most. Partly as a result, German off-peak electricity prices doubled in the two years to January 2006, to just over €40 per MWh, setting consumers squawking.

The second worry is about the purchase of credits from developing countries. Partly thanks to the Chinese government's 65% tax on emissions-reduction credits, European companies are paying many times the actual cost of reducing emissions. That price they pay is passed on to European consumers, who may eventually revolt when they realise how much money they are pouring into Chinese government coffers.

Third, the time-horizons for Kyoto (up to 2012) and, even more, for the ETS (whose first period runs only up to 2008) are too short. So whereas projects in the near term (such as capturing nasty Chinese gases) are financially worthwhile, longer-term ones that may be just as desirable (such as investing in cleaner power-generating plant) are not.

All that said, this is the first attempt to deal rationally with a hugely complex problem, so it would be odd if it did not encounter difficulties. And it has made some headway: last year it got rich-world consumers to invest $2.7 billion to cut developing-country greenhouse-gas emissions by around 374m tonnes of CO_2 equivalent. That is only about half of Texas's annual emissions—but it's a start.

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Anti-hero

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Within a decade, China will emit more greenhouse gases than any other country

Eyevine

Murky business

THE few remaining cyclists in Beijing risk death one way or another. If the city's 4m cars, jammed onto the multiplying ringroads and flyovers, do not get them, the polluted air will. It is so thick that you cannot see the sun, even on a sunny day.

At present, rich countries emit more CO_2 than developing countries do. But developing countries as a whole will overtake rich countries shortly; and China, the most populous of the emerging economies, will become the world's biggest greenhouse-gas emitter in 2015.

Every year China builds 60 gigawatts of power-generation capacity, almost as much as Britain's entire existing capacity. Four-fifths of Chinese power is generated by coal, the dirtiest source of electricity. China currently uses 40% of the world's coal—more than America, Europe and Japan put together.

Pollution has not been a priority for the Chinese government. “All departments and ministries are oriented towards GDP. Some comprehensive economic departments should be in charge of planning, but all they want to do is authorise projects. Local leaders are the same. So the Environmental Protection Agency is pretty weak,” according to Pan Yue, vice-minister of the State Environmental Protection Agency.

But the government is becoming increasingly concerned about the problems that pollution brings, such as sickness from filthy air and arid soil from acid rain, which has made it keen to boost the use of renewables and increase energy efficiency. It is building huge wind farms on its coastline and even runs some hydrogen-fuelled buses in Beijing. Last year it pushed up fuel-efficiency standards for cars sold in China, and by 2008 it will raise them above federal American levels. The 11th five-year plan, published earlier this year, requires the economy to become 20% more energy-efficient by 2010.

Between 1980 and 2000 China's GDP quadrupled, whereas energy consumption only doubled. The Chinese government intends to repeat that trick. But decentralisation, deregulation and a huge infrastructure boom have boosted demand for power, and China's economy is now becoming more, not less, energy-intensive. The energy elasticity of GDP (the relationship between changes in energy consumption and changes in GDP) rose from 0.5 in 2000 to 1.5 in 2004. “The government has lost control of industry,” says Jiang Lin of America's Lawrence Berkeley National Laboratory.

Moreover, the goals of reducing pollution and mitigating the effects of climate change sometimes conflict. The harmful pollutants released into the air by coal-fired electricity generation, such as sulphur, also dampen the greenhouse effect. Take them out and your people's health will improve, but the world will get warmer, as the West found in the second half of the 20th century. China, too, seems likely to choose cleaner air.

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A coat of green

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Still Pictures

A fair wind

Business is becoming more environment-minded, but only because government is pushing

CARBON DIOXIDE is a waste product from turning heavy oil into hydrogen. Pumped into greenhouses to boost plant growth, it is also an input into the market-gardening business, where it can increase productivity by a quarter.

In the Botlek area of the Netherlands, a Shell refinery used to release around 1m tonnes of CO_2 a year into the air. Meanwhile the greenhouses in the area were making their own CO_2. In the winter it was a by-product of their heating systems, but in the summer they had to burn gas to make CO_2 and release waste heat.

Shell realised that its supply of CO_2 and the market gardeners' demand for the stuff could be put together to both businesses' advantage. So, since last year, it has been pumping some of its CO_2 directly into 500 greenhouses full of roses, tomatoes and cucumbers. As a result, its CO_2 emissions into the air are 170,000 tonnes a year down, and the greenhouses are using 95m fewer cubic metres of gas.

Business seems to be buzzing with green activity. Newspapers are full of advertisements from companies parading their environmental credentials. Some of this is driven by consumers. Greenness has become a moral issue, and companies such as Wal-Mart, which are seen by some as oppressing their workers and destroying communities, can improve their image by looking good environmentally.

Some of it is driven by recruitment. Oil companies need talented graduates, many of whom want to make the world a better place. Chris Mottershead, BP's adviser on energy and the environment, says the company is happy with the green splash it has made: “We are attracting the best graduates again. When they come for an interview, they find that people are talking about things that resonate with them.”

Some of it is about saving money. In most companies energy consumption has not, until recently, been much of an issue. “Nobody ever became vice-president by cutting the electricity bill,” says Alex Farrell, of the Energy and Resources Group at the University of California at Berkeley. But rising electricity prices have focused attention on energy, and companies that cut their electricity bills also cut their emissions, and can boast about that.

Most of the wave of greenery, however, is driven by government. Companies are investing in climate-

friendly products and processes because governments have changed the rules to make it worthwhile doing so, and because companies believe that there will be more of the same in the future. That is the main reason for the advertising, the public relations and the quieter but energetic lobbying.

If there is going to be regulation, companies want to help shape it. “We started looking at this issue a few years ago,” says David Hone, Shell's group climate-change adviser, “and realised that there would be new products and new rules. It was in our interest to be part of the discussion, in a constructive way.” Companies that were hostile to green regulation were not going to be invited to the table, so those that wanted to be involved had to acquire some green credentials and flaunt them.

There were indeed new rules, in the form of Europe's Emissions-Trading Scheme, and industry did well to be involved in the discussions. Economists were arguing for a carbon tax. Industry wanted emissions limited by quantity, rather than by price. “We didn't want a tax,” says a BP executive. “We didn't want a system in which the level was set by the budget deficit rather than by the cost of carbon.” Industry won.

Economists argued that the most efficient way to run the system would be to auction permits to emit CO_2. Industry wanted permits handed out free. Again, industry won, and has profited nicely from the scheme. The fact that so many European polluters have done so well out of the ETS is one reason why some airline bosses, including Sir Richard Branson of Virgin and Sir Rod Eddington, the former chief of British Airways, are arguing for a trading scheme for their industry; and why American companies are now less hostile to the idea than they were before the ETS started up.

But there is more than just lobbying going on. Climate-change regulation, and the prospect of more of it, is changing the way business thinks about carbon and leading it to invest in new areas.

The Shell greenhouse project is an example of how regulation drives investment. Thanks to the ETS, says Mr Hone, “CO_2 gets attention from people like oil-refinery managers these days. There's a clear price signal. Projects to control emissions are worth investing in.”

And there is a bit more investment in cleaner technology and renewable energy than there used to be. The wind business, for instance, is booming, thanks to subsidies in Europe and America. “We've had a wonderful run,” says Lorraine Bolsinger, head of GE's green Ecomagination division. “The business is growing at 18%. We've sold out to the end of 2008. We're investing $70m annually in R&D.”

Flaunt it

But the green-business boom needs to be kept in perspective. Take BP, which announced last November that it would be investing up to $8 billion in renewables and alternatives over ten years. It sounds a lot, but at this year's rate of capital spending it would be only 4% of BP's total over that period. Shell is spending $1 billion on renewables over five years.

GE has made much of Ecomagination, which is made up of 32 clean-technology products. Ecomagination recently announced revenues of $10 billion last year, and forecast that at the current rate of growth they would rise to $20 billion by 2010. R&D spending on Ecomagination products is to rise from $700m (out of a total of $5 billion for GE as a whole) to $1.5 billion by 2010.

Ecomagination is certainly ahead of the rest of the business, which is growing at around 6% a year. But there is a bit less to all this than meets the eye. First, GE's overall revenues are $150 billion, so Ecomagination does not loom very large. And second, the division's products are not that different from the rest of GE's offerings.

To qualify as part of Ecomagination, says Ms Bolsinger, a product has to be both “environmentally better or inherently green” and also “economically better than what it's replacing”. But new products tend to be more efficient than old ones (which is one reason why rich countries' energy efficiency increases by around 2% a year); and if some of that efficiency is used to cut fuel consumption, they can be defined as environmentally better. It would, therefore, be surprising if quite a lot of GE's newer-generation products were not environmentally better than the older ones.

Indeed, much of the Ecomagination product list is made up of new, somewhat more efficient, versions of old products. The GEnx aero-engine, for instance, is 15% more fuel-efficient than the one it is replacing. The new Evolution rail engines are 4% more efficient. Both qualify as Ecomagination products, but sound

more like the consequence of run-of-the-mill product improvement than a green revolution.

Shareholders should draw comfort from this. If GE really were the revolutionary it makes itself out to be, it might be quite a risky investment. But the bet it is making is small and perfectly sensible.

GE, BP, Shell and their peers all believe that governments will regulate CO_2 a bit more in the future than they have done in the past. That will tip the market towards greener technologies, and the modest investments they have made in environment-friendly products will pay off. “This is contingent investment,” says Mr Mottershead. “We think the political commitment to renewables around the world will grow, and we'll have more of the answers than our competitors will. We're happier with our position than we were three years ago, because the world seems more inclined to change.”

There is some evidence that managers are rewarded for being green. “We have made a notable attempt to make this part of the way we analyse people,” says Abby Cohen, Goldman Sachs's chief American investment-portfolio strategist. “When you look at the at-risk industries—those that make their living out of environmentally challenging businesses—some players have made a much better job of moving the technology forward.”

Ms Cohen points to important pools of assets—such as CalPERS, the Californian state employees' pension fund, and CalSTRS, the Californian teachers' pension fund—that prefer to invest in green companies. The number of such investors may be increasing. At the first conference of the Investor Network on Climate Risk, in 2003, participants represented assets of $600 billion. Last year, they represented $2.7 trillion.

In a paper published last year in the *Financial Analysts Journal*, Jeroen Derwall of the RSM Erasmus University in Rotterdam and colleagues found that the average annual return between 1995 and 2003 on a portfolio of companies that ranked high on greenery was 12.2%, compared with 8.9% for low-ranked companies. Maybe easier access to capital (which the green investors presumably offer) helps. Maybe it's just that companies that are well-managed overall also tend to pay attention to their environmental profile. Either way, greenery seems to go with success.

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Doing it their way

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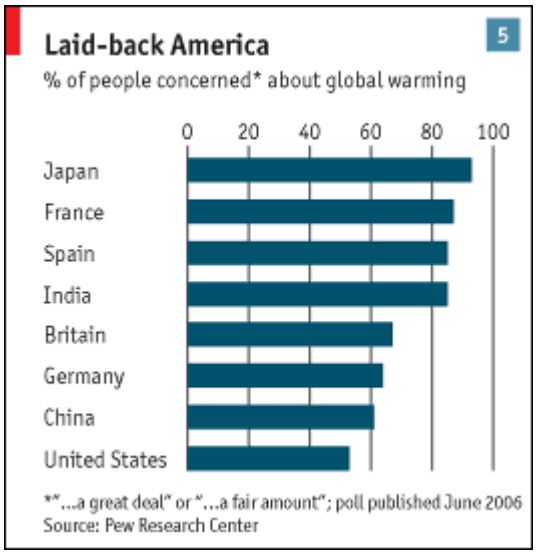
American attitudes to global warming are complex, and are changing

JAMES INHOFE, chairman of the American Senate's environment and public works committee, has described the threat of catastrophic global warming as the “greatest hoax ever perpetrated on the American people”. His fellow Republican, Arnold Schwarzenegger, the governor of California, has a different take: “I say the debate is over. We know the science. We see the threat. And we know the time for action is now.”



The passionate argument about climate change going on inside America is not always obvious to the rest of the world. Some greens in other countries tend to write America off because it chose not to ratify the Kyoto protocol, because the federal government has consistently refused to adopt a mandatory system for restricting emissions, and because American public opinion is relatively indifferent to global warming (see chart 5). Yet the politics of global warming in America are more complex than that, and are changing.

The federal government's inaction contrasts with a flurry of activity at lower levels of government. The mayor of Seattle has started an initiative to get cities to aim for Kyoto targets, and 279 cities have signed up. Seven north-eastern states have set up the Regional Greenhouse Gas Initiative—emissions stabilisation followed by cuts, with a trading scheme—and six western governors are agitating for federal action.

California is particularly interesting, for two reasons. First, the Hummer-driving Mr Schwarzenegger is, improbably, one of the greenest politicians in the world. This may in part reflect his personal convictions, but also chimes with the views of Californians, who are much more environment-minded than other Americans. Second, the state has long experience of adopting tougher environmental regulations than other parts of America, and of gauging their economic impact.

On August 31st, California became the first state to legislate for cuts in greenhouse-gas emissions—by 25% by 2020. The bill was opposed by most Republican legislators. Mr Schwarzenegger has also set a target for cutting emissions to 80% below 1990 levels by 2050. (Oregon has a target of 75%, and the governor was clearly determined not to let some northern girlie-man steal the crown of greenest governor.) By 2010, 20% of California's energy is to be generated from renewables.

Allan Zaremberg, president of California's Chamber of Commerce, says these targets will impose huge new costs on local businesses. They will also cause CO_2-heavy factories to migrate to developing countries where they will be subject to less stringent restrictions and will therefore produce more CO_2.

Similar complaints were heard in the 1970s, when California imposed unusually tough emissions standards for other pollutants. Yet Mr Zaremberg concedes that business has benefited from tough clean-air regulations. They have made California's environment more attractive, and the state has developed technologies for things like energy-efficient buildings that have subsequently been sold elsewhere. California's economic performance (despite power prices which, partly because of regulation, are 40% above the American average) makes it hard to argue that business in the state is groaning under its heavy regulatory burden.

California is also forging ahead on vehicle-emissions standards. In 2004 it became the first American

state to legislate to cut carbon-dioxide emissions from vehicles. The law stipulated that CO_2 emissions from vehicles had to be reduced by 30% by 2016. Carmakers claimed that this would add $3,000 to the price of a car and cost thousands of jobs. They took California to court, where the matter is stuck.

If the vehicle-emissions standards get through, ten other states say they will follow. Californian standards tend to spread around the world because no manufacturer wants to be shut out of the Californian market.

Coming round

Opinion in America as a whole is shifting a little in California's direction. Hurricane Katrina brought the issue to the fore. Scientists had given warning that climate change might cause “extreme weather events”. Katrina demonstrated what such an event—for which the government was unprepared—could look like. Individuals thought about their safety; businesses about their balance sheets.

The White House's sceptical stance lost credibility last year when it emerged that Phil Cooney, chief of staff at the Council on Environmental Quality, had been editing scientific reports to emphasise uncertainties in climate science. Mr Cooney resigned and joined Exxon Mobil.

The steady drumbeat of stories attributing all manner of evil to climate change is getting louder: California burning (because the woods are too dry); ski resorts struggling (because the snow line is rising); alligators in Florida eating people (because their pools and thus their food supplies are drying up); polar bears eating each other (because melting ice makes it harder for them to hunt).

Several of America's wealthiest and best-organised foundations have raised the temperature by making climate change one of their big issues. The Hewlett Foundation's Hal Harvey and the Pew Center on Global Climate Change's Eileen Claussen are key figures in commissioning research and working on politicians. The sceptics can call on funding from companies keen to avert federal action, but the green think-tanks outgun them. Myron Ebell of the Competititive Enterprise Institute, who calls them “the forces of darkness”, says they receive “huge amounts of money from charitable foundations. The children and grandchildren of capitalist buccaneers are soft left.”

Their activities have helped create a curious new alliance whose members disagree about almost everything except global warming. Jim Woolsey, a Prius-driving former head of the CIA, who numbers himself among them, calls it “a coalition of tree-huggers, sod-busters, cheap hawks and evangelicals.”

Sod-busters, explains Mr Woolsey, is a south-western term for farmers. Farming subsidies are continually under threat, but when the federal government started subsidising ethanol production and wind power, farmers realised that renewable energy offers new streams of revenue. Turbines are a lucrative alternative to turnips.

The cheap hawks, which Mr Woolsey says include him, are concerned about the vulnerability of oil installations in the Middle East. “Relying on this unstable part of the world for this very important part of our economy is rather worrying.” America does have coal, but coal supplies won't last forever, so demand for fossil fuels needs to be cut. Mr Woolsey, who backed the Iraq war, is on the advisory board of the Institute for the Analysis of Global Security, which argues for subsidies to make cars more fuel-efficient and for plant-based alternatives to petrol.

Earlier this year, Christian evangelicals, who have a direct line to the White House, launched the “Evangelical Climate Initiative”, signed by 86 evangelical leaders, including Rick Warren, who runs a mega-church and wrote a bestseller, “The Purpose-Driven Life”. It says that “millions of people could die in this century because of climate change, most of them our poorest global neighbours.”

Not all evangelicals go along with this. According to an opinion poll last year, 33% of evangelicals think hurricanes are a deliberate act of God—which presumably means that man should not mess with them. (Some 13% of non-evangelical Protestants, 15% of Catholics and, bizarrely, 17% of non-religious people agree.) Twenty-two leading evangelicals wrote to the National Association of Evangelicals asking it not to endorse the climate initiative. It didn't.

Two more important lobbies are coming round to the view that something needs to be done. Hunting and shooting lies close to the heart of the Bush administration (as Dick Cheney showed when he accidentally

peppered an old friend). One-fifth of voters hunt or shoot, and two-thirds of hunters and anglers vote Republican. In the first poll of their views, carried out in May this year, 76% of these sportsmen said they had personally noticed climate change, and 78% said that the right way to address America's energy needs was to conserve more, develop fuel-efficient vehicles and use more renewables. Only 15% thought the right approach was to drill for more oil.

Business is doing its bit. In April this year, eight big energy companies, including GE, Shell and the two largest owners of utilities in the United States, Exelon and Duke Energy, were being questioned by the Senate Energy and Natural Resources Committee. Six of the eight said they would welcome or at least accept mandatory caps on their greenhouse-gas emissions. Wal-Mart was keen, too.

Does all this add up to federal legislation on mandatory controls? The progress of two bills says “not yet”. One, from Senators John McCain, a Republican, and Joseph Lieberman, a Democrat, has been voted on twice, and got slightly less support in the second vote than in the first. The other, a comparatively modest proposal based on a scheme put together by the National Commission on Energy Policy for a cap-and-trade system with a price limit of $7 per tonne, was part of an energy-bill amendment initially proposed by Jeff Bingaman, a Democrat, and Pete Domenici, a Republican. Mr Domenici backed away at the last moment. Earlier this year he and Mr Bingaman published a white paper on how a trading scheme might work.

So on Capitol Hill the issue is not dead but resting. Three things might wake it up: first, a strong performance by Democrats in the mid-term elections; second, and more important, a new president. The favourites for the two parties' nominations, Mr McCain and Hillary Clinton, both favour mandatory federal emissions controls. Third, the Supreme Court is to rule next year on whether the federal government has the right to control carbon-dioxide emissions under the Clean Air Act. That will either pave the way for legislation or kill off the possibility.

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Where to start

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AP

Green Bush

Technological and economic solutions to climate change are available. The problem is politics

THE sheer number of scientists, economists, businesspeople and policymakers working on climate change endows it with a kind of blitz spirit. Surely, given so much will and enthusiasm, we can defeat this threat? Yet the projections are not encouraging. The concentration of CO_2 in the air has risen from 280ppm before the industrial revolution to around 380ppm now, and the IPCC reckons that if emissions continue to grow at their current rate, by 2100 this will have risen to around 800ppm. Depending on population changes, economic growth and political will, this could be adjusted to somewhere between 540ppm and 970ppm. The prospect of anything much above 550ppm makes scientists nervous.

In order to control these figures, it is important to pick some priorities. The sources of this problem range from smokestacks through Amazonian deforestation to pig effluent; from Mexico to Mauritania. But identifying the main countries and sectors responsible will help target efforts.

The widely held notion that gas-guzzling cars are the core of the problem is wrong. Transport (including planes and ships as well as cars) produces only 13.5% of emissions. The biggest contributor is power generation (24.5%); and the biggest contributor among sources of power is coal. Coal is cheap. Coal is dirty. America has lots of coal and China has vast reserves to fuel its economic boom. And rocketing natural-gas prices have led to a boom in the building of coal-fired power plants in recent years.

The second-biggest source of emissions is deforestation (18%). The tendency to focus on fossil fuel explains why this source gets left out when solutions are drawn up; and why campaigners are lobbying hard to get deforestation included in the European Emissions-Trading Scheme.

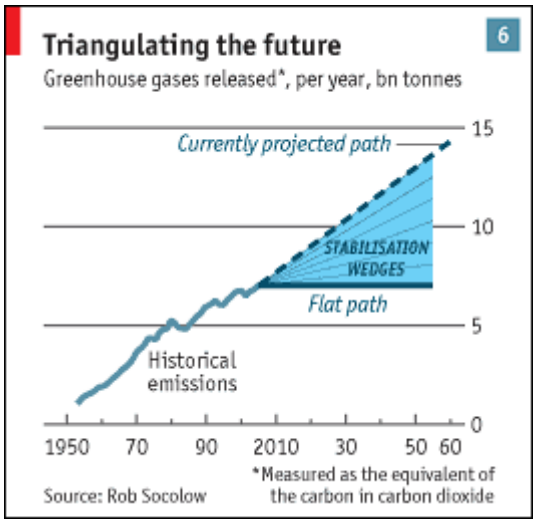
When it comes to the contribution of individual countries, America is still the principal source of greenhouse gases, but China is closing in and India is coming up from behind. If those three and Europe took the problem seriously, there would be a good chance of solving it.

But there is no silver bullet. If an answer is to be found, it lies in using a combination of economics and a broad range of technologies.

Robert Socolow, an economist at Princeton University, offers an encouraging way of thinking about this. His “stabilisation wedges” (see chart 6) show how different ways of cutting emissions can be used

incrementally to lower the trajectory from a steep and frightening path towards a horizontal one that stabilises emissions at their current level.

One wedge might be carbon sequestration (storing carbon dioxide underground or below the oceans) to deal with emissions from coal-fired power plants. Sequestering CO_2 emissions might raise the price of coal-generated power by 50%, but coal is such a cheap source of power that it might still be attractive. And it may have huge potential: a paper just published by Harvard's Daniel Schrag and colleagues argues that thousands of years-worth of American emissions could be stored under American coastal waters.



Another might be renewable energy sources. They supply around 14% of world energy now and the figure is unlikely to increase sharply in the near future. But their share can rise enough to bring the trajectory down a little.

Economics can help make these technologies viable. That can be done in two ways. One is to subsidise early-stage R&D to bring down the price of alternatives. The second is to tax carbon (or set up a cap-and-trade system similar to Europe's ETS) to push up the price of fossil fuels. Given that governments are reluctant to make themselves unpopular by taxing consumers or constraining companies, there is probably a need for a bit of both.

That leaves the hardest bit of the puzzle: the politics. The best solution would be to get the world's biggest polluters to share the burden. Kyoto tried to do that, and failed. America, which is now allergic to the word, is not going to accept the protocol, and over time Europe will get fed up with paying for something that is doing no global good. So, in the short term, the world is faced with the choice of no solution or a better-than-nothing approach that might improve over time.

America is the key. If America does nothing, then the developing world's big polluters will do nothing. If America decides, independently, to constrain emissions at a federal level (and cap-and-trade is much likelier to be acceptable than anything that includes the dread word “tax”), then China and India might come to accept that they have as much to lose as everybody else, and that they should lead the rest of the developing world towards cutting emissions.

Or America might restart the process of involving the rest of the world, possibly at a regional level, through the Asia-Pacific Initiative that it set up in competition to Kyoto. For the moment, the chances of that happening do not look great. But as the weather changes, so does the political climate. Another heatwave, another disastrous hurricane season, and the pressure to take action will become harder to resist. It would need a different name, of course: the Peoria Protocol, perhaps, or the Indianapolis Initiative. Or what about the Crawford Convention, Mr Bush? That would stick the personal brand of the man who likes to enjoy the natural world at his ranch on America's attempt to save it.

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Mobile phones on planes

Would you fly in chattering class?

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The use of mobile phones on planes moves another step closer

Get article background

LIKE it or not, the prospect of being able to use mobile phones on aeroplanes is inching ever closer. Last week Ryanair, a European low-cost carrier, announced that it would equip its entire fleet of Boeing 737s with small base stations, called picocells, provided by OnAir, a technology company backed by Airbus, Europe's aviation giant. The picocells will use satellite links to allow mobile phones to be used during flight without interfering with ground-based networks. (Such interference, rather than safety concerns, is the primary reason that in-flight use of mobile phones is banned at the moment.) Taking a cut of the resulting revenues will help Ryanair to keep its ticket prices down, according to Michael O'Leary, the firm's boss.

But it is uncertain just how popular, and hence how lucrative, in-flight calling will be. The technical obstacles have been overcome and regulatory approval is expected soon—at least in Europe. Regulators are expected to issue guidelines in the next few weeks defining which frequencies can be used and national aviation authorities will start certifying airlines' installations early next year. OnAir says it expects its technology to be approved in time for Air France to launch in-air calling on an Airbus A318 in the first quarter of 2007.

Mobile phones must still surmount social obstacles, however. Will people flock to airlines that offer in-flight calling, or avoid them? And how much will callers be prepared to pay? OnAir, its rival AeroMobile and other firms have conducted a series of surveys in an attempt to find out.

According to the latest survey, released by OnAir this week, 80% of airline passengers approve of the idea of being able to use telephones on aircraft, even if they do not plan to do so themselves. Indeed, only 54% of business travellers and 41% of leisure travellers said they would switch their phones on during a flight. One reason is cost: George Cooper, the boss of OnAir, says that at prices above $3 per minute, “demand drops off considerably”, according to the firm's research. He expects $2.50 per minute to be the norm when services based on his firm's technology are launched by Air France, Ryanair, bmi and TAP Portugal. But OnAir will then cut its prices by 10% a year for five years, he says.

Previous surveys have painted a less rosy picture. One survey of young mobile-phone users, carried out last year by IDC and SMS.ac, a mobile portal, found that 64% of young people favoured in-flight texting, and only 11% liked the idea of making calls. And 82% of respondents agreed with the statement “I don't want people talking on their phones during flights.”

Another, more rigorous survey, carried out in America for the Association of Flight Attendants-CWA, a flight attendants' union, found that 63% of those polled thought the ban on in-flight calling should be maintained. Concern over noisy passengers shouting into their phones, cited by 68% of people, topped the list of objections; only 2% worried that the use of phones might somehow help terrorists. (The AFA-CWA's objection to in-flight calling seems to be that it will make it harder for flight attendants to keep order.)

And when America's telecoms regulator, the Federal Communications Commission, requested public comments on in-flight calling, it received thousands of mostly negative responses. “Please no. No,” read one response. “I object to this in the strongest terms. I can't believe you are even considering it.” America's airlines seem to share this lack of enthusiasm for the idea. Both United and Delta say their customers do not want it.

But in-flight calling is coming to Asia. AeroMobile, a joint venture between Telenor, a Norwegian mobile operator, and ARINC, a technology firm, says it plans to launch in-air services with Qantas and a second, unnamed Asian airline. “We're exploiting the fact that any flights over the ocean do not require regulatory approval,” says Peter Tuggey of AeroMobile.

So the availability of in-flight communications seems likely to vary widely. Offering such a service, or not offering it, could enable airlines to differentiate themselves on particular routes. They could also impose quiet periods or mobile-free cabins. On long-haul flights, texting and Wi-Fi access might prove more attractive than voice-calling, provided the price is right—though Boeing recently axed Connexion, its impressive but little used satellite-based in-flight broadband service.

In-flight calling may in fact prove best suited to short-haul, low-cost flights. After all, people choose Ryanair and other low-cost carriers because of their low prices—not because they enjoy the flight. So the prospect of other passengers shouting into their phones may not put people off. Quite the opposite, in fact, if it can help to subsidise low ticket prices.

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Pharmaceuticals

Counter manoeuvres

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A new class of "behind-the-counter" drugs may be emerging in America

Get article background

ROWS over how drugs are dispensed are nothing new. After the French revolution chemists lost their monopoly over the sale of medicines. A few years later Napoleon, who believed that "water, air and cleanness" were the best medicines, nonetheless partly restored their privileges. The palaver over the power of pill pushers has continued ever since. But today the argument is global.

In *dirigiste* continental Europe pharmacies continue to enjoy an iron grip on sales of drugs—even the "over the counter" (OTC) sort that do not require a doctor's prescription. In contrast, the power of pharmacies has been on the wane in the handful of countries that have liberalised drug sales. In the Netherlands and in the Anglo-Saxon countries a big and growing proportion of drugs are sold by supermarkets and other general retailers (see chart). Druggists have long sought to fight back, but to little avail. This is especially true in America, where pharmaceutical companies have lobbied against efforts to give pharmacists greater control over dispensing drugs, out of fear that such control would result in lower sales.

Yet the American pharmacists' cause has just received help from an unexpected quarter, as a result of last month's decision by the Food and Drug Administration (FDA) to relax its control over sales of Plan B, a "morning after" contraceptive hitherto sold only as a prescription drug in America. Rather than allowing it to be dispensed freely, the FDA forced a "voluntary" accord on Barr Laboratories, the drug's maker, for it to be sold from behind the pharmacist's counter. If an identity check reveals the purchaser to be under 18, Plan B will still require a prescription; if the buyer is 18 or over, the pharmacist can dispense it freely. This landmark decision could prove to be the thin edge of a very big wedge. The arrival of Plan B may herald the emergence of a class of pharmaceuticals unknown in America: behind-the-counter (BTC) drugs.

In many countries pharmaceuticals fall into one of three classes: prescription-only, OTC and some variation of BTC. Consumers do not need a doctor's approval to buy that last class of drugs—but they must speak to a pharmacist first before getting their hands on them. In America, however, long-standing FDA regulations made no provision for BTC drugs.

And rightly so, argue American drugs firms. They worry that anything short of full OTC standing will undermine sales, as some people will shy away from talking to pharmacists. A study in Britain, which allows BTC sales of drugs, found that pharmacy sales increased by 20% when consumers were allowed to buy OTC drugs without the pharmacist's surveillance. David Spangler of the Consumer Healthcare Products Association, an American lobby representing OTC manufacturers, says consumers should have the option to consult a pharmacist if they wish—but insists that the two-tiered system should stay.

But a task force convened recently by the American Pharmacists Association (APhA), another industry lobby, argued that creating a new class of "pharmacy care OTC" drugs would enhance safety and provide the consumer with easier access to medicines. The first claim makes sense, but surely the second is

absurd? No, insists Susan Winckler of the APhA. She points to the successful transfer of statins, which reduce cholesterol, from prescription-only to BTC status in Britain. In America the FDA has judged statins too risky for OTC sale. So a pharmacist-controlled distribution channel would actually expand the American market, says Ms Winckler.

It is not just the FDA that has helped the pharmacists' cause. Not long ago, manufacturers of anti-smoking remedies agreed to voluntary restrictions on sales that have also had the unintended effect of bolstering pharmacies. The police have also done their bit by arguing for a new law that would force America's pharmacies to move pseudoephedrine, a cold remedy that can be used to make illicit methamphetamine, behind the pharmacy counter.

Of course, the FDA's decision to place Plan B behind the counter was due to the fractious politics of abortion, not a desire to boost the power of the pharmacists. Even the drug's manufacturer insists, “this is not a new class of drugs in the US” but a decision “specific to Plan B”. Perhaps so, but the weight of precedent is growing. Congress and the FDA are not on the verge of creating a BTC class of drugs today, says Ms Winckler. But it seems more likely now than it did a month ago.

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Drug patents

Under attack

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Why are drug patents now coming under legal attack?

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AT FIRST blush, the Plavix affair appears to be an astonishing victory for Apotex, a cheeky Canadian drugs firm that launched a generic version of the world's second-bestselling drug. For a few weeks in August the generic version captured nearly three-quarters of the American market for the $6 billion-a-year drug—until Sanofi-Aventis and Bristol-Myers Squibb, the makers of Plavix, asked a judge to halt sales, which he did on August 31st.

Look closer, though, and it becomes clear that Apotex will be a winner only if it defeats Sanofi's patents on Plavix in a case that starts in January. Regardless of the outcome, the case raises an important legal question: how can a firm like Apotex bring a generic drug to market when others own a perfectly valid patent for it? The answer is that the potential prize is simply so large these days that the reward outweighs the risk of legal defeat. The multi-billion dollar sales of today's blockbuster drugs have invited greater legal scrutiny of patents and encouraged generics firms to find ways to innovate around them.

The result is a relentless legal attack on branded drugs. Eli Lilly has seen its patents on Prozac, Evista and Zyprexa, three of its biggest-selling drugs, challenged by generics firms. Pfizer faces frequent patent challenges on Lipitor, the cholesterol-reducing remedy that is the world's bestselling drug. Dozens of other patent challenges are pending.

Curiously, rather than using the law to defend their patents, big firms often settle out of court. Sanofi and Bristol-Myers Squibb made just such a deal with Apotex, but it was deemed to be illegal. Shire, a British firm that makes a drug to combat attention-deficit disorder, got Barr Laboratories to agree in August to delay its generic launch until 2009.

But why would a firm with a legal patent strike such a deal? One reason could be that some drugs giants regard settlements as a way to bribe a generics firm to delay its introduction of a cut-price product. American antitrust officials worry this is to the detriment of the consumer. Another explanation is that the cost and legal uncertainty associated with patent trials are simply too great. Daniel Glazer of Shearman and Sterling, a big law firm, argues that even a firm convinced of the integrity of its patents may well settle “to avoid the all-or-nothing scenario”.

But there is a less charitable explanation. The big firm may know that its patent was mistakenly awarded, perhaps because the purported breakthrough was too minor or obvious. In Barr's ongoing case against Eli Lilly's Evista, the generic firm argues that a prior patent held by the University of Pennsylvania invalidates Lilly's claims. Kathleen Jaeger of America's Generic Pharmaceutical Association adds that branded firms try to extend their lucrative monopolies by filing less rigorous secondary patents designed “to block generics”. David Balto, a former official at America's Federal Trade Commission, says, “Branded pharmaceutical firms have been stretching the limits of what deserves a patent, and the courts are just catching up.”

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Japan's basic industries

Under pressure

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An outbreak of mergers and takeovers could be looming in Japan

Landov

Roll with it

WHY pay attention to a deal that failed to happen? Because it could be a sign of things to come. The deal in question was Japan's first hostile takeover bid by one blue-chip company for another, which expired on September 4th. Oji Paper, Japan's biggest paper company, had tried to take over Hokuetsu Paper, a smaller firm. But the deal was blocked when Nippon Paper, the industry's number two, bought a stake in Hokuetsu and the company put in place poison pills to defend itself. Yet although Oji's bid failed, the logic of the deal made sense. Indeed, several converging factors suggest that Japan's basic industries are now poised for an outbreak of mergers and takeovers in the coming months.

After Japan's economic bubble burst in 1990, the country's overcrowded basic industries found themselves laden with debt, overcapacity and overemployment. A round of consolidation followed. The number of oil firms shrank from 14 to five, for example, and the number of cement companies from seven to three. The resulting companies then began paying back their huge loans and streamlining their operations. Now that Japan's economy has started to recover, firms are awash with cash, making possible share buybacks, higher dividend payouts and increased capital expenditure. This week the finance ministry said that corporate investment had grown for 13 quarters in a row, jumping 16.6% in the three months to June 30th, compared with the year before.

But companies have realised that improving their own operations can only yield so much growth. The top firms in each industry are the most aware of the need for greater scale, says Peter Tasker of Arcus Investment. Oji, to its credit, realised that Hokuetsu had recently invested a great deal of money in new equipment, at a time when Oji and Nippon Paper, after years of parsimony, needed fresh equipment too. Oji reckoned it would be better for the industry if it were to buy Hokuetsu, rather than investing in new equipment itself, which would add to overcapacity and drag prices down. The same is true in other basic industries, where overcapacity means that consolidation now makes more sense than investing in new

kit.

Japanese firms also have some catching up to do. While they were putting their houses in order, their healthier foreign rivals went on acquisition sprees. As a result, even Japan's largest companies in some industries are now dwarfed by their foreign rivals. For example, RUSAL, a Russian aluminium firm, is shortly expected to take over SUAL, a local rival, and the aluminium assets of Glencore, a Swiss commodities group, to become the world's biggest aluminium-maker, with an output of around 4m tonnes of aluminium a year. By comparison, Japan's largest aluminium firm, Furukawa-Sky Aluminum, produces a mere 427,000 tonnes a year. Similarly, the merger of Mittal Steel and Arcelor created a giant that easily overshadows Japan's top four steelmakers.

Another factor likely to prompt consolidation in Japan is a new corporate law, due to come into effect in May 2007, which will allow foreign companies to use stock swaps to acquire Japanese firms, so facilitating takeovers. There is particular concern that takeover bids from companies based in developing countries could pose a threat to Japan's strategic interests. Japan's trade ministry has advised the country's steelmakers to adopt poison pills to protect themselves from foreign takeovers, and has called for antitrust regulations to be relaxed to allow further consolidation.

Some of Japan's stronger and braver companies have responded by buying foreign companies themselves. Nippon Sheet Glass, a big glass firm, bought Pilkington, a British glassmaker, for example, and Toshiba bought Westinghouse, an American nuclear-power equipment-maker. Other firms have established joint ventures. Sumitomo Chemical, a petrochemical company, has struck a deal with Saudi Aramco, Saudi Arabia's state-owned oil giant, to set up a ¥1 trillion ($8.6 billion) plant in Saudi Arabia. This week Nippon Steel and POSCO, South Korea's largest steelmaker, which already hold shares in one another, said they were considering deepening their defensive partnership.

Already, there is some evidence of an increase in mergers and acquisitions. The value of such deals amounted to some ¥8 trillion in the first seven months of this year and is expected to reach a record high by the end of the year. But as Oji's unsuccessful bid shows, even deals that make sound business sense can be scuppered for other reasons. Hokuetsu's shareholders rejected Oji's generous offer for their shares, leading some companies to wonder whether hostile takeovers will ever be readily accepted in Japan.

What Japan needs is more shareholder activists, says Mr Tasker. But these days the phrase carries a nasty whiff: Yoshiaki Murakami, the most flamboyant example, is now under arrest, having been accused of insider dealing. Nor is there any sign of a shift away from Japan's conservative business culture. Instead, to the delight of the corporate old guard, the trial began this week of Takafumi Horie, the swashbuckling former president of livedoor, a sprawling internet company, who pleaded not guilty to fraud charges. The tug-of-war between a culture that prizes harmony and global pressures that are not going to go away may continue for some time.

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Viacom

The dog days of Sumner

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From The Economist print edition

Sumner Redstone picks a new boss for his ailing media conglomerate

NOW aged 83, Sumner Redstone shows no sign of easing up. A fortnight ago, the tycoon fired Tom Cruise, accusing the hitherto most bankable asset of his media conglomerate's Paramount studio of being someone who “effectuates creative suicide”. Not content with that, Mr Redstone this week fired Tom Freston, the chief executive of Viacom, Paramount's parent, less than two months after saying that he could envisage “no circumstance” in which he would dismiss him.

It is barely nine months since Mr Freston, a hugely respected media executive who presided over the global success of MTV, became boss of Viacom when Mr Redstone split his empire in two. Mr Freston might have expected longer to prove himself, especially given his popularity on Wall Street and his long, loyal service to Mr Redstone. But the split, in which Viacom kept the cable networks and film studios while the broadcasting businesses were spun off as CBS, was widely seen as Mr Redstone's last hurrah. He is desperate for it to succeed and time is not on his side. Since the split, shares in CBS have risen steadily, whereas Viacom's shares have lost more than a quarter of their value. They tumbled further on news of Mr Freston's unexpected departure.

His replacement, Philippe Dauman, is a lawyer—he appeared on the cover of *Forbes* magazine in 1995, described as America's most powerful “trophy lawyer”—and has long been a confidant of Mr Redstone. Their relationship even survived Mr Redstone's firing of Mr Dauman after CBS merged with Viacom in 1999, though a reported severance package of $150m no doubt helped to soften the blow. (Mr Freston's reported $60m pay-off looks rather puny in comparison.)

As a result, many investors regard Mr Dauman's appointment as a sign that Mr Redstone intends to be far more hands-on in his oversight of Viacom—a prospect they do not relish. Mr Dauman will be assisted by Tom Dooley, another executive once fired by Mr Redstone but now rehired. Since 2000 Mr Dauman and Mr Dooley have run a private-equity firm together.

Mr Redstone talks as if he is putting his old band back together, in hope of reliving the glory days: “I have lived with Philippe and Tom for 20 years. They were my deputies at the original Viacom.” But turning things around may not be so easy. Mr Dauman's priority will be to revitalise MTV, which has been stagnating recently as its youthful viewers have increasingly turned instead to YouTube, a video-sharing website, and MySpace, a popular social-networking website owned by Mr Redstone's arch (and almost-as-ancient) rival, Rupert Murdoch. Last week's MTV music-video awards show attracted roughly 30% fewer viewers than the 2005 show. Mr Freston's star first started to fade a year ago when he was beaten in the battle to buy MySpace by Mr Murdoch's News Corporation.

It seems that the new team does not intend to change Viacom's strategy—which is to distribute content via television, mobile phones and the internet—but to pursue it more energetically, especially the online part of it. And if that doesn't work? How about merging Viacom with CBS?

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Corporate corruption in Germany

Dogmeat and the truffle pig

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From The Economist print edition

Business-to-business crime is growing in a country that seems not to care

HUNDREDS of tons of rotten meat, unfit for human consumption, may have been sold to food companies across Europe by a dodgy German firm, it emerged on September 1st. It was just the latest scandal to hit German business. Investigations are under way at three security companies where money, which the firms were transporting, has gone missing. In the car industry procurement managers at BMW, Volkswagen, Audi and DaimlerChrysler are accused of taking bribes from components suppliers. Allegations of bribery are also being investigated at Media Markt and Saturn, two electronics chains, and at the German subsidiaries of Ikea and Philips. And a case rumbles on against Udo Schneider, an organiser of sports sponsorship, for allegedly bribing managers at Infineon, a chipmaker, to keep the sponsorship money flowing.

Something, it seems, is rotten in the state of German business. Has the work ethic of the post-war *Wirtschaftswunder* given way to a culture of greed and corruption? Certainly the Federal Crime Office (BKA) and local state prosecutors agree that business-to-business corruption is growing, whereas previously their main concern was bribery of public officials. But Peter von Blomberg at Transparency International Deutschland, the anti-corruption group's German wing, warns against reading too much into the official figures. They fluctuate wildly from year to year, depending on who gets found out and how overworked prosecutors are. “Reported crime is the tip of the iceberg,” he says. Wolfgang Schaupensteiner, Frankfurt's senior corruption prosecutor, reckons 95% of economic crimes go undetected, leading people to conclude that bribery pays.

Companies tend to hush up the cases they discover: fewer than 60% result in legal action, according to a survey of German executives by KPMG, an accounting firm. Bribery may have increased because of the growth of outsourcing, Mr von Blomberg suggests: the procurement manager is handling bigger sums and more contracts than he used to. “He's like The Godfather,” echoes Mr Schaupensteiner. Meanwhile, greater competition puts more pressure on suppliers to renew contracts at all costs. Wolfgang Meinig, who runs an auto-industry research group, says suppliers sometimes give their customers a discount—dubbed “savings on current account”—in advance of a future contract.

For some components suppliers and car firms, and some retailers and wholesalers, the bribery becomes systemic and part of business policy. That may have been the case at Faurecia, a French car-parts firm, in its relations with several German carmakers: Pierre Levi, its boss, resigned last month. At Philips Deutschland the bribery of retailers also may have been part of a deliberate policy. Such arrangements have to be organised, says Mr Schaupensteiner; the money has to come from somewhere.

The overworked Frankfurt attorney, who calls himself the “truffle pig” because he unearths crimes but then has few resources to process them, is handling a string of prominent cases, including those against Ikea and Faurecia. But he knows of far more cases than he is able to pursue. He is aware, for example, of an international web of dummy companies used for tax evasion, but going after it would spread his team too thin. And when he does catch criminals, the result is often a plea-bargain and a reduced sentence, to save time. “Not much of a deterrent,” says Mr von Blomberg. That's reality, snorts the truffle pig.

Germany's fight against corruption is hampered by lack of resources, decentralisation and the absence of a corporate criminal law. A proposal for a law that would make possible the criminal prosecution of companies was once drafted, but was rejected by parliament. A glance at the BKA's crime statistics, tip of the iceberg though they may be, could explain the foot-dragging. Among the recorded receivers of bribes in 2004, a quarter were local government officials and 53 were mayors.

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Mobile telecoms

Air supremacy

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America's wireless-spectrum auction avoids the pitfalls of Europe's

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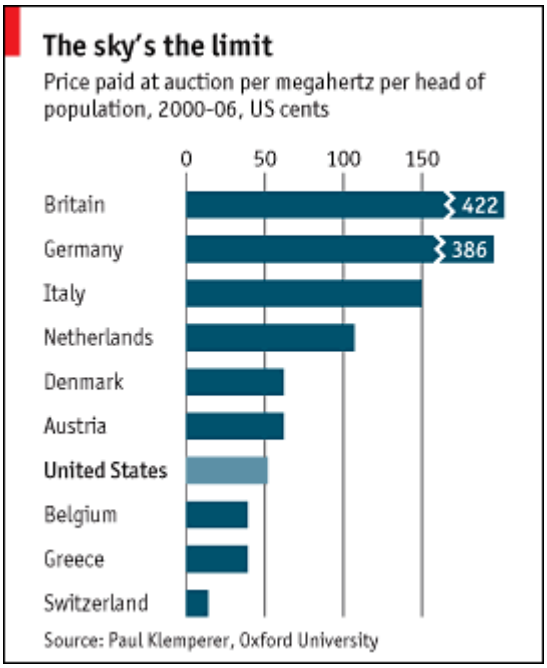
LIKE a deity, radio spectrum is invisible, omnipresent and commands awesome power. As America's auction for spectrum to support a new generation of wireless services draws to a close, the bids have already reached $13.8 billion. That may sound like a lot, but it is a fraction of the sum raised by similar auctions in Europe in 2000 and 2001, when bidders were still beguiled by visions of wireless nirvana.

Over 150 companies bid for licences divided into regions and cities, allowing operators to cobble together nationwide coverage or concentrate their efforts. Despite hopes that a new national operator might emerge, the spectrum largely went to existing wireless firms (with the exception of a consortium of cable companies partly backed by Sprint). T-Mobile, America's smallest nationwide operator, with a huge shortage of spectrum, is poised to pay $4.2 billion for the largest block of licences; Verizon bid $2.8 billion for its share; the cable consortium offered $2.4 billion for its batch and Cingular (which has abundant spectrum after its acquisition of AT&T Wireless) added to its reserves by bidding a modest $1.3 billion.

The result is that today's broadband duopoly between the fixed-line telecoms operators and the cable companies is now moving into the wireless sector. The spectrum will be used from 2008 for “advanced wireless services” such as video-calling on mobile phones—the kind of thing that is known as “third generation” (3G) technology in the rest of the world.

The American auction is a study in sobriety compared with the excesses of Europe's 3G auctions in 2000 and 2001, which raised almost $100 billion but are blamed for nearly bankrupting many operators. For example, where German mobile operators paid roughly $8 billion each for licences to offer service to around 80m people, American operators will have spent as little as $2.4 billion to cover a population of 300m (see chart).



The outcome of America's auction was different for a variety of reasons. First, America's regulatory regime allows operators to decide how to use their spectrum and also allows them to resell it. European operators that bought 3G spectrum licences, in contrast, had to use a particular technology, called W-CDMA, which was beset with technical problems that held up the launch of 3G services for years. They were not allowed to use existing spectrum for 3G, and no other new spectrum was on offer; so they were bidding, in effect, for the right to stay in business. As a result, they were prepared to pay very high prices.

Next, America's mobile operators could see, by looking at the experience of 3G operators in Europe and Asia, that mobile-data services have not been as lucrative as expected. Furthermore, technical improvements to boost the capacity of existing spectrum and further auctions in 2007 and 2008 mean the wireless industry will be increasingly competitive. Because the expected financial return from the spectrum is lower, so too is its value, says Greg Staple, a telecoms lawyer at Vinson & Elkins in Washington, DC.

Although America was spared the mayhem of Europe's auctions, its design still had a few problems. Prices for national coverage differed enormously depending on how the licences were combined, notes Simon Wilkie, an economist at the University of Southern California. Companies that bid for a few large regions to obtain nationwide spectrum paid almost twice as much as firms with the equivalent amount of spectrum assembled from hundreds of licences in smaller areas. This suggests an inefficiency in the auction design, since the same coverage ought to cost the same amount, says Paul Klemperer, an economist at Oxford University who helped design Britain's spectrum auction.

Spectrum auctions are a relatively new idea. As well as raising money for governments, which previously just gave spectrum away, auctions ensure that the spectrum is allocated efficiently and goes to the companies that value it the most. America's auction was an improvement on many of those in Europe, which were flawed in some ways. The idea is sound in theory, but there are evidently still some wrinkles to be ironed out in practice.

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Face value

Ford's new pilot

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Getty Images

Alan Mulally jumps from Boeing to rescue America's troubled carmaker

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YOUR company is an American icon, being overtaken by pushy competitors. Your top management ranks are thin and you need a turnaround wizard because you can no longer function credibly as chairman, chief executive, president and chief operating officer all at once. Your name may be on the building, but you need help. What do you do, once the two obvious candidates—Dieter Zetsche at DaimlerChrysler and Carlos Ghosn at Renault/Nissan—have turned you down? You look for someone who has rescued another American icon.

That is how Bill Ford came to choose Alan Mulally, who successfully piloted Boeing's commercial-aircraft group through the hardest time in its history, to replace him as Ford's new president and chief executive. In his 37 years at Boeing, Mr Mulally was twice passed over for the top job. Now he has at last been given the chance to run one of America's top companies. His credentials are impressive. As well as keeping Boeing Commercial profitable amid the storm that broke over aviation in 2001, he also managed to recapture the market leadership lost to Airbus. Can he now work the same magic at Ford?

Mr Mulally first made his name running Boeing's 777 programme in the early 1990s. This was the aircraft that was to begin Boeing's recovery after years when its aeroplanes were outshone by the new models rolling out of Airbus's hangars in Toulouse. Having proved himself, he was put in charge of Boeing's commercial-aviation business in September 1998. The division was in chaos. Airbus's A320, a single-aisle aircraft, was eating into Boeing's market share, and the board had decided to take on Airbus in a price war. Demand boomed as both firms started offering heavy discounts. But Boeing could not manage the ramp-up in production. Its suppliers were unable or unwilling to step up the pace because Boeing had mistreated them so often. Aircraft were lying around in Boeing's vast Seattle hangars waiting for parts to arrive. Production had to be halted for a month, resulting in the company's first annual loss in 50 years.

Mr Mulally was brought in to sort out the mess. He set up weekly meetings, which he ran from a video-conference suite next to his office. It was like a war-room, with all the division's main operating data projected on screens. Every Thursday Mr Mulally painstakingly took his executives through every line of figures. He maintained this ritual throughout his tenure, so that he always knew exactly what was going on. An enthusiastic team player and a charismatic leader, Mr Mulally was also regarded by his colleagues

as an engineers' engineer, since he based his decisions on hard data rather than vague hunches. He applied the same data-driven approach to his own health as he struggled to fight off a viral infection a few years ago, calling in a nutritionist and becoming a healthy-eating freak. He recovered, bought some smaller suits and has never looked back: he is now a spare figure who looks young for his 61 years.

Yet Mr Mulally has a ruthless streak. As the industry nose-dived in 2001, he slashed the workforce at Boeing Commercial from 120,000 to 50,000. When Boeing's sales fell behind those at Airbus as the market picked up, he got rid of Toby Bright, his right-hand man for 20 years, and replaced him with Scott Carson. After five years in second place, Boeing snatched market leadership back from Airbus last year. (This week Mr Carson was named as Mr Mulally's successor at Boeing.) Mr Mulally can also be ruthless with his own creations. He killed off the snazzy Sonic Cruiser plane, only 18 months after it had been unveiled in a blaze of publicity. Airlines told him they wanted economy and comfort, not more speed, so Mr Mulally went back to the drawing board to produce something more to their liking.

Lately he has basked in the success of the new 787 Dreamliner, Boeing's runaway bestseller that arose from the ashes of the Sonic Cruiser. It uses the same composite-material technology to reduce weight and hence fuel consumption. Even more significant, in the light of Mr Mulally's new job, is the drastic change that Boeing Commercial has made to its business model with the 787. The aircraft is being built by a consortium of risk-sharing partners stretching from Italy to Japan.

Planes, cars, what's the difference?

The big question is whether Mr Mulally's undoubted expertise in aviation can be applied in the car business. There are some similarities. Both are capital-intensive, with long product development times, intricate supply chains and complex manufacturing processes. Indeed, Mr Mulally carefully studied Toyota's world-beating manufacturing in the early 1990s, though it took years before Boeing's factories incorporated much of the “lean manufacturing” philosophy—the 737 factory got a moving final-assembly line only in 2003, 90 years after Henry Ford invented it. But there are differences, too. Airliners are big-ticket items, sold to hard-nosed businesses at a rate of only a 1,000 a year, even in boom times like today. Cars, in contrast, are aspirational consumer items, sold in their millions to individuals through elaborate dealer networks. Boeings are the same wherever they fly; Fords must suit the needs of local markets.

Mr Mulally's first task at Ford's glass-walled headquarters in Dearborn will be to examine how the company has managed to become so cut off from its customers. In the five years since Mr Ford took the helm, the company's domestic market share has fallen from 25% to about 17%. Ford lost over $1.3 billion in the first half of this year. Later this month the board will meet to review plans to speed up the turnaround in its chronically loss-making American business. But Ford needs more than just a dose of strong medicine. Its divided, dispirited managers also need decisive leadership. The chief attribute Mr Mulally brings is his strength as a corporate chief. His combination of charisma and toughness could be precisely what Ford needs.

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Business in Africa

The flicker of a brighter future

Sep 7th 2006 | JOHANNESBURG, LUANDA AND LUSAKA
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Reuters

Once again, Africa is listed as the most difficult place in the world to do business. So why are some businessmen happy to be there?

THE prospect of investing in sub-Saharan Africa can cause businessmen to break out in a cold sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets, where war, famine, AIDS and disaster are always lurking. This week an annual World Bank study once again named Africa as the most difficult region in which to do business. But not everyone sees it like that. Graham Mackay, who runs SABMiller, the world's second-largest brewer, has said that “if there was any more of Africa, we'd be investing in it.”

Mr Mackay, whose firm has its origins in South Africa, is one of plenty of business leaders to see opportunities in the continent. Companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephones. The region's economy is growing steadily (see chart 1) and could expand by 5.8% this year. In part this is because of a commodities boom and debt forgiveness. But more peace, political stability and better economic management have done their bit, too.

Nevertheless, there is a long way to go and still plenty to frighten away investors. Chad, for instance, recently demanded that Chevron and Petronas pay $500m in taxes or face expulsion, even though both companies thought they had met their obligations. The government also decided it wants a share in the oil consortium. Some companies come up with a litany of complaints. One construction firm built a road in a West African country only to have half the work it completed during the day destroyed at night by people digging out steel reinforcements. After similar misfortunes elsewhere, it eventually quit the region.

Doing business in Africa is hard work. The World Bank study measures things like red tape and taxes. South Africa, Mauritius, Namibia and Botswana rank among the best 50 countries in the world. But of the 35 least business-friendly, 27 are in sub-

Saharan Africa. Some are impossibly hard: if firms paid all taxes due in Sierra Leone, they would spend almost three times their total profits; in the Democratic Republic of Congo, registering a business takes 155 days and costs almost five times the average Congolese's annual income of $120; enforcing a contract in Angola involves 47 procedures and takes over 1,000 days.

For many African entrepreneurs, operating legally brings too many headaches and too few benefits. As a result, 42% of the region's economy is informal, the highest proportion in the world (see chart 2). This hinders firms from growing and stifles much-needed employment outside the civil service. In Malawi only 50,000 people out of a population of 12m have formal jobs in the private sector.

Moving goods across borders takes a lot of patience. At the Chirundu border-post between Zimbabwe and Zambia, an endless line of trucks languishes, waiting sometimes days to clear customs. This keeps African markets small and fragmented. Ayisi Makatiani, a Kenyan entrepreneur who now helps African businesses, says red tape is one of the main problems for business. “The government is a broken-down bureaucracy in many places. If they were in business, they would be bankrupt,” he sighs.

Bad roads, or a lack of them, add to the difficulties. Reliable electricity is rare. Currency fluctuations are hard to stomach. Purchasing power is in short supply. Almost half of the 750m sub-Saharan Africans live on less than $1 a day. The pool of qualified staff is small. AIDS claims the lives of employees and customers alike. And, according to surveys from Transparency International, a Berlin-based corruption watchdog, graft is still seen as a huge problem. Countries like Côte d'Ivoire and Zimbabwe, once regional powerhouses, have descended into political and economic ruin.

With such a formidable list of hazards, no wonder many investors stay away. The costs and risks—not to mention the hassle—hardly seem worth it. Africa captures less than 3% of global foreign direct investment. And most of this is from mining and oil companies, which have little choice but to go where the minerals are.

Yet some of the entrepreneurs who manage to succeed in Africa find that the rewards are great. When Celtel, a mobile-phone operator, set up in Zambia eight years ago, it concentrated on the densely populated corridor between Victoria Falls (on the border with Zimbabwe), Lusaka and the industrial copper belt. This was thought to be the only area in which to do business. Yet in 2003, the company decided to invest in rural services, too, and was astonished at the result.

Although most rural customers had never used a telephone, they were keen to have one. This encouraged more people in the cities to obtain mobile phones to talk to relatives in the countryside. The introduction of Me2U, a service that allows callers to use text-messaging to send airtime credit to other mobiles, provided a further boost. Most people do not have bank accounts and the service has become a convenient and cheap way to transfer money. In villages it has also emerged as a substitute for cash, with people using airtime to pay for their shopping. Shopkeepers cash in their accumulated phone credits with people who make money by offering callers use of their mobile phones as a sort of public phone. Within the past two years, Celtel's Zambian customers have grown from 70,000 to over 1m.

Celtel found that it succeeded if it adapted products and services to local tastes, needs and small budgets. A similar adjustment is to be found in Uganda, where SABMiller at first depended on imported malt to make its beer. It developed Eagle, a beer made from cheaper, locally grown sorghum and negotiated a reduction in excise tax. The reduction in costs was used to lower the sale price. The cheaper beer, resembling lager, sold well and has now been introduced to other countries in the region. Most drinks are also sold in returnable glass bottles, which are cheaper than cans.

Although many Africans are poor, they are willing to pay for what they need. The plentiful creativity and entrepreneurship in the informal economy can be harnessed to cater to them. Prepaid telephone cards and soft drinks, often distributed via informal networks, can be found in tiny stalls in the most remote corners of Africa, despite all the difficulties with transport.

In Ghana Barclays, a British bank, started working with “Susu collectors”, who gather savings daily from informal traders without access to banking, to keep their money safe. There are an estimated 5,000 Susu collectors in the country, each working with an average of 400 clients. This is a $140m market that exists below the traditional banking radar. Barclays now offers special bank accounts, training and lending to the Susu collectors, who can provide credit to their clients. The bank was taken aback by the amount of money, sophistication and willingness to save in the informal economy.

Such results take patience and imagination. In Nigeria South Africa's MTN, the largest mobile-phone company in the region, had to build its own microwave transmission backbone and power supplies. It now enjoys a 45% market share, with over 9.6m subscribers. In Uganda it erected the first solar payphone, used by local fishermen, on Lake Victoria. Many of the rural branches of South Africa's Standard Bank rely on satellite transmission, diesel generators and solar power. Its isolated branch on a Lake Victoria island receives money from the sky: with no landing strip, planes drop bags of cash to be collected by staff and security guards. Having bought a local bank, improved service and invested in more branches, Standard Bank now serves almost half the Ugandan market.

For such companies, the reward for coping with the risk and the hassle come in large returns and a lack of competition. Successful businesses can expect to enjoy comfortable margins, rewarding them for their time and investment. SABMiller's best operating margins are in Africa; MTN's are over 42%.

Successful investors say that Africa can be no harder than other emerging markets, but that doing business requires good local knowledge. South African companies tend to be well placed to operate in the region—though Peter Wharton-Hood of Standard Bank cautions that: “You can't have South Africa dumped into Kampala.” SABMiller believes that its African roots help it better to understand the cultural sensitivities in the continent. Dimension Data (Didata), a South African IT company that now operates globally, finds emerging markets easier going than the intensively competitive and unfamiliar European or North American ones.

Finding a local partner helps. Locals may not bring much capital or technical expertise, but their knowledge and networks are invaluable. “You can't arrive in Nigeria and hope to understand what's going on without a local partner,” says James McCormack, who is in charge of Africa at Didata. It is also a way of assuaging distrust in foreign companies, which are often perceived as mammoths barging in to make a quick buck or to wreck local businesses. South African supermarkets, for example, have been accused of undermining local traders and snubbing local suppliers. SABMiller's African operations are joint ventures with locals, some of them governments. André Parker, in charge of Africa at SABMiller, admits that this is not always smooth sailing. “It is an educational process for both sides.” Managing by consensus can be slow, but having local shareholders and the government on board pays off in the long run.

Employing and retaining clever and resilient people is also tricky. “The depth of talent in Africa is huge,” says Standard Bank's Mr Wharton-Hood. Experience is, however, often thin. Most foreign firms have to spend heavily on training; and persuading well trained staff to stay is not easy. Besides generous salaries and perks such as housing or medical cover, promises of exciting career prospects—at home and abroad—may be needed to keep people happy.

Size and nationality make a difference, too. Neuma Grobbelaar, who heads research projects on business in Africa at the South African Institute for International Affairs, a think-tank, says large foreign companies are in a much better position than small or local ones are to weather Africa's frustrations. They have easier access to money; they can negotiate exemptions, incentives and tax breaks from governments that local companies can only dream of; they can invest time and money in understanding and navigating Byzantine regulations; and they have enough power to say no to corruption without getting harassed. Celtel refused to pay its way into the Democratic Republic of Congo. This delayed negotiations by two years, but the company eventually made it.

In for the long haul

The time, investment and risk involved in making Africa work mean that investing there is not for everyone—which is why profit margins are large. “When we went into Mozambique, people thought we

were mad," recalls Vincent Maphai, who heads BHP Billiton in South Africa. In the mid-1990s Mozambique was coming out of a civil war and the area where the company was building its Mozal aluminium smelter was infested with malaria. But the mineral resources were valuable and the company believed in the country's potential. This encouraged other investors, who followed in BHP Billiton's footsteps into Mozambique, where the economy has grown by an average of 8% a year over the past decade.

Foreign investors, especially large ones, are expected to contribute more than taxes and salaries. They must also take care of employees and local people and help the private sector. Weak and poor governments are often unable to provide services such as health care and education, and people want something from foreign investment, which often benefits only a small elite. "Don't even dream of doing business in Africa if you're not prepared to leave a visible legacy," says Mr Maphai. "Investing in communities is taken for granted. You do not get rewarded for doing it. You get punished for not doing it." The Mozal plant supported an anti-malaria programme and a school. Many foreign companies help employees and sometimes customers to deal with HIV/AIDS.

Such efforts can sometimes help the business. BHP Billiton considers the time and money spent helping local suppliers as a worthwhile investment. Mozal—estimated to account for over 3% of the country's GDP and a third of its economic growth—now purchases $11m-worth of goods and services a month from over 200 local suppliers. SABMiller, which relies on local transport to distribute its beers and soft drinks to the remotest corners of Africa, helps entrepreneurs obtain credit, trucks and training. Its Zambian operation has 1,100 employees, of whom only four are expatriates.

Vismedia

Cash call

Last year, large firms with an interest in the region set up Business Action for Africa to help foster the private sector. The realisation that much of Africa's development depends on helping local businesses flourish has resulted in a flurry of initiatives. "I don't believe for a moment that there is a stronger entrepreneurial spirit in Asia than in Africa," says Ms Grobbelaar. But small informal businesses need to be consolidated, nurtured and brought into the formal economy. Reforms need to make life easier not just for large foreign companies, but also for small ones. Better links with the local private sector would also help spread the benefits of foreign investment.

Ultimately, doing business in Africa is a gamble on the future—that the continent will make something of the commodity boom that has helped it grow faster in the past three years than at any time in the past few decades and, possibly, ever. If the economy takes off, investors intend already to be there, firmly rooted. "Africa's promise is about tomorrow," says SABMiller's Mr Parker. The Thousand Hills Venture Fund, a small private-equity firm set up to invest in Rwanda, is also optimistic. Rob Fogler, the co-founder, believes that the country has already turned the corner. He wants to prove that investing in small companies in Africa can be successful. So far, his is the only Africa fund based in the United States to be entirely financed by private money.

Although African countries have thrown away past opportunities, the optimists may yet be proved right. Virtually all those countries that once embraced a Marxist credo have now forsaken it; few even call themselves socialist any more. Large parts of economies have been privatised. Places like Nigeria, Zambia and Rwanda have launched anti-corruption sweeps. Africa may remain at the bottom of the World Bank survey, but it is the third most-reforming region—which it has never been before. Tanzania

and Ghana were amongst the most enthusiastic reformers in the world this year. Nigeria has embarked on a reform of the courts. In Kenya traders can now pay custom duties online, reducing time and hassle. Keen to see their ranking improve, some governments have been jolted into action and are now talking to the private sector to identify the most-needed reforms.

Will it last? Michael Klein, in charge of private-sector development at the World Bank, thinks it could. If governments remain on their current track, he believes GDP growth in sub-Saharan Africa could reach 9% in a decade or so. That is a brave prediction in a region prone to booms and busts, because of its reliance on minerals, oil and rain. Previous commodity booms have been squandered and in some cases, often because of complacency, left countries in an even worse mess. This could happen again. But with better fundamentals, Africa may now be more resilient than it was. For one thing, African oil importers are coping with high prices much better than they did in the 1970s.

Foreign investors are governed by trust. India and China also rank relatively poorly in the World Bank survey, but are nonetheless investment magnets. Mr Klein argues this is because investors are confident that these countries are going in the right direction and they want to tap into their large markets early. Africa will have to prove itself through years of good performance and sustained reform before it can gain such confidence. But if it does, those who are already betting on the continent will be miles ahead.

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About sponsorship

Europe's investment regulations

Ready or not

Sep 7th 2006 | FRANKFURT AND LONDON
From The Economist print edition

Europe's financial sector is ill prepared for a coming upheaval

SOME of the most breathless commentary about Europe's financial markets in recent years has centred on the intrigues and dalliances of leading financial exchanges. All of them have flirted with, encouraged and snubbed various potential partners in both Europe and America, although no big deals have yet been completed. Amid the chatter, an important cause of all the matchmaking and matchbreaking has been largely overlooked: a piece of looming legislation that, for all its drab detail, will alter the European Union's financial markets profoundly.

Exchanges are not the only ones to feel the hot breath of the unenticingly labelled Markets in Financial Instruments Directive, known as MiFID, which is due to take effect from November 2007. An important element of the EU's plan for a single market in financial services, the directive embraces both wholesale and retail trading in securities, including shares, bonds and derivatives. As such, it will affect companies from investment banks to asset managers and stockbrokers. Some will benefit more than others (see chart).

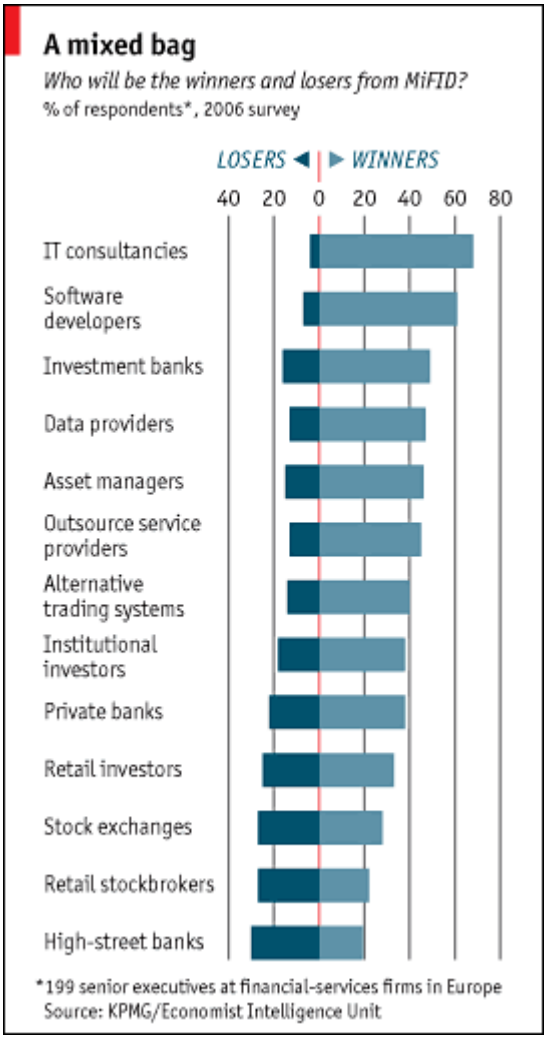
Charlie McCreevy, the European commissioner in charge of forging a single market, jokes about the ugly moniker: “This is not a fearsome man-eating plant.” But he is evangelical about the directive's purpose. He expects MiFID to “transform” the trading of securities in Europe, reducing the cost of capital, creating growth and increasing Europe's competitiveness in the global economy.

The directive, which EU member states are supposed to weave into their own laws by January 2007, intends to accomplish all this in several ways. First, the rules aim to increase competition across borders, by extending the “single passport”, which allows financial firms to do business across Europe armed only with the approval of their home authorities. To make this possible, investor-protection rules are also to be harmonised, so as to provide a (theoretically) consistent standard in areas

such as investment advice, order-handling and the completion of securities trades—"best execution", in the jargon.

Second, MiFID aims to change the nature of competition in share trading. Although most shares in Europe are still traded on exchanges, there is growing interest in alternatives, such as off-exchange trading between investment banks. MiFID could accelerate this trend. In some countries—notably France, Italy and Spain—existing rules force all share trades through local bourses. The new rules will end those monopolies. No wonder exchanges, facing the threat of greater competition, are weighing up mergers.

A third intention of MiFID is more transparency. In future, investors should be able to subscribe to information services that let them see the whole market in certain shares, not only what is on offer at the local stock exchange. The goal is to let investors find the best prices in the market. This will mean competition for the London Stock Exchange, for example, which earns a healthy sum from selling such information. Investment banks are already banding together to develop alternative reporting services.



Mr McCreevy argues that the thousands of pages spelling out these changes will mean less regulation rather than more, because they set out principles rather than detailed prescriptions of how business must be done. There's the rub. The lack of precision in MiFID—carefully crafted in Brussels, some argue, as a way to paper over political differences between European governments—is causing headaches for financial firms trying to prepare themselves for the November 2007 deadline. "Politically, it's a good compromise," says Bob Fuller, of Dresdner Kleinwort, who also heads a technology-advisory group on MiFID. But he adds, "Practically, it's a very big headache."

The MiFID cuckoo

Financial-industry lobbying groups voice concerns about the costs of complying. In London, Europe's leading financial centre and the regional home of many big investment banks, such groups have mounted a fierce assault on parts of MiFID they consider vague or downright objectionable.

These include worries over the application of best-execution rules to securities other than shares, such as corporate bonds or specialised derivatives, that are traded off-exchange. The Financial Services Authority, Britain's regulator, has proposed "benchmarking"—in essence, disclosing the range of available prices—as a part of best execution to ensure that buyers are getting the best prices. One London traders' representative calls this "the single most difficult issue" in implementing MiFID. In his view, benchmarking is not practical for securities traded off-exchange, especially in thin markets where price is only one factor in a deal. He fears this new rule could even drive trading from London.

As the rules are transposed into national laws across Europe, differences in interpretation and practice are likely to remain. "In theory it's the same rules for everybody, but we all know in the EU it doesn't work that way," says Jeremy Scott, who heads the financial-services practice at PricewaterhouseCoopers.

Some national regulators are also struggling to keep up with the timetable. In Germany, for instance, a team at the finance ministry is working on draft amendments to the stock exchange and securities laws to implement MiFID. Since it still has to be passed by parliament once the draft is done, the Germans admit they are unlikely to meet the January deadline. France is even farther behind. The result could be staggered implementation of MiFID that adds to confusion in cross-border trading. "We're not seeing all the regulators in Europe working together," says Mr Fuller. "Nobody can answer the questions the firms need answered."

Indeed, a combination of confusion and foot-dragging has made many financial firms slow to carry out

necessary changes. Compliance departments are “flustered” by the new rules, says Octavio Marenzi of Celent, a consulting firm specialising in financial services. “They're expecting someone to give them a cookbook and they'll implement it.”

But, he adds, in the same firms where compliance officers are gnashing their teeth, the heads of equity trading may see new opportunities in MiFID. Big investment banks, with the resources to upgrade their technology and compliance, could stand to gain. Middle-market firms, on the other hand, may have to scale back their operations or risk losing business to lower-cost competitors.

The firms in most danger are those in denial about the arrival of MiFID. “If they're not focused on it yet, they should be,” says Mr Scott. “From the top.”

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Japanese lending

The FSA flinches

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A row breaks out over the future of Japan's consumer finance

WEEKLY *manga* magazines such as *Shonen Magazine*, which targets males in their late teens and early twenties, are fairly barren when it comes to advertisements. That makes the glossy ads they carry for consumer-finance companies stand out. That Japanese youths are being persuaded borrowing money is easy is one reason why the Financial Services Agency (FSA), the banking watchdog, and a subcommittee on consumer-finance reform within the ruling Liberal Democratic Party (LDP) have been working on what was meant to be one of the most thorough overhauls the industry has undergone.

Yet despite lots of bravado, the FSA's draft bill, unveiled on September 5th, was a sore disappointment to those who favour big changes. The row it has sparked has led Masazumi Gotoda, vice-minister in charge of financial services (and a member of the LDP), to resign. It may cause a delay in the submission of a bill to the Diet, which had been expected later this year.

Reformers worry that too many Japanese are borrowing more than they can hope to repay. They had hoped for limits on consumers' ability to borrow from several lenders and tighter caps on interest rates. Leading consumer-finance firms say that only 7% of borrowers owe money to more than one lender, but because the industry's credit database does not cover many of its 14,000 mostly tiny firms, the true number is probably much higher.

The FSA has proposed some changes that will address such worries. Its draft bill would replace the existing muddle of two different maximum lending rates (one of 15-20%, the other of 29%) with the lower of the two. It would also raise capital requirements for lenders and make membership of the credit database compulsory.

The row and Mr Gotoda's resignation were provoked by some loopholes that would delay some changes by as much as eight years after the reform's eventual approval. Although the interest-rate cap will be lowered, the FSA has proposed phasing this in over three years. “I would be ashamed to be part of an agency that is lenient towards lenders and protects consumers insufficiently,” says Mr Gotoda. What irks Mr Gotoda and others is that for a further five years rates of 28% will be permitted on loans of up to ¥500,000 ($4,350) paid back within a year, or on six-month loans of up to ¥300,000. Given that these amounts exceed the average loan, this will in effect allow consumer-finance companies to carry on lending at 28%, while borrowing for next to nothing.

At the same time, the proposal has annoyed lenders, who wanted the cap unchanged. The biggest, which include local subsidiaries of Citigroup and GE Capital, are fighting back, even hoping to persuade America's Treasury to intervene.

With official Japanese interest rates so low, such high consumer-lending rates may seem curious. Those with the healthiest credit records can indeed borrow for a mere 5-6%. The mass of potential borrowers, though, who can get by without turning to the consumer-lending companies, are ill served. Japanese banks, which are subject to the 15-20% rate cap, may one day fill the gap, but they have shied away from mass-market personal lending.

One effect of a prompt reform would have been to bankrupt the most heavily indebted borrowers, as lenders called in their loans. Postponing change for so long puts off the inevitable. That may be less welcome than it sounds. Now that personal bankruptcy laws have become more lenient, there is less reason for desperate borrowers to delay. Settlements before cases reach court are also increasingly popular. The FSA had said it needed to be cruel to be kind. It has flinched, but the argument rages on.

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India's rupee

Slowly does it

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A disappointment for those hoping capital controls might ease soon

“THE chapter on the Fall of the Rupee you may omit,” counselled Oscar Wilde's prudish governess in “The Importance of Being Earnest”. “It is somewhat too sensational.” A new work on the rupee, in contrast, has set few pulses racing. A report by a committee set up in March by the Reserve Bank, India's central bank, to “revisit” the question of full convertibility of the currency recommends only slow change—too slow, for two of the committee's members, who have dissented from some of its cautious conclusions.

The rupee is convertible for the purposes of trade. But there are controls on capital outflows and on some inflows, such as bank borrowings. The Reserve Bank intervenes to ensure the currency's value does not jerk about violently. Economic reformers have long hankered after full convertibility. They say it is needed to reduce the cost of capital and thus bring in investment to allow India to sustain GDP growth in excess of 8%.

The committee, chaired by S.S. Tarapore, who also led a similar exercise in 1997, does favour liberalisation. But it sets out a three-phase, five-year gradual approach. The earlier report appeared just before the Asian financial crisis and was condemned to virtual irrelevance because of it. Surjit Bhalla, a dissenting member of both Mr Tarapore's teams, has pointed out that in some respects the new report is more cautious. It recommends, for example, that Indian residents be allowed to send $100,000 a year abroad by the financial year starting in April 2008, nine years later than the first committee proposed.

The committee even proposes a new control: a ban on “participatory notes” (PNs), derivative instruments through which foreign investors—especially hedge funds—trade in Indian shares. PNs now account for nearly half the foreign investment in the stockmarket. India's regulators have long been uneasy because they do not know the identities of the original investors. As Mr Bhalla argues, PNs are a response to the difficulty of securing a licence to become a registered “foreign institutional investor”, and to high taxes on capital gains. A ban (which is highly unlikely) would be a big step backwards.

Mr Bhalla also takes issue with a suggestion that the Reserve Bank adopt an exchange-rate target—a band of plus or minus 5% around a currency-weighted rate. It was the misguided effort by Thailand's central bank to keep the baht within a pre-set band that triggered the 1997 disaster. The Reserve Bank has managed the rupee well enough without any target.

The central bank is now studying the report, which has disappointed reformers in the government of Manmohan Singh, the prime minister, who, as finance minister in 1991, oversaw the first big liberalisation of the Indian economy. It will, however, ease some fears of conservatives in Mr Singh's Congress party and its coalition partners, who have seen the committee as part of a conspiracy to impose IMF-mandated reform. Mr Bhalla's telling final criticism of the report is that it assumes it has to be “cognisant of political realities and prejudices”, rather than objective. Something more sensational might actually be better policy, if worse politics.

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Banks in developing countries

Branching out

Sep 7th 2006
From The Economist print edition

In developing countries, banks are being bought by their own kind

FROM later this month, Chileans doing business in Beijing will have the chance to patronise their local Banco de Chile. Indians working in Malaysia will soon have a similar opportunity, when Vijaya Bank gets final approval to open its first branch there. The days when American and European banks were the only foreign options in developing countries are long gone, as a growing number of banks in such places are owned by banks from other developing countries.

The trend is the result of growing trade and foreign investment among poorer countries, which tend to have an advantage working in places with familiar rules and customs. According to a new study by Neeltje van Horen, of the World Bank, 27% of foreign banks in developing countries are owned by banks from other developing countries. Most banking links of this type happen within regions, with South Africa, Malaysia and Hungary leading the way among their neighbours. That said, more inter-regional examples, such as Banco de Chile, are beginning to pop up.

Foreign lending is on the rise as well as ownership. Syndicated lending by groups of banks in developing countries has risen from only around $700m in 1985 to $6.2 billion by 2005, according to the World Bank's 2006 Global Development Finance report. “This is the natural development coming from increased trade and economic relations between southern countries,” says Nouriel Roubini, of Roubini Global Economics, a research firm. Trade among developing countries has been increasing, too, helped in part by regional trade agreements, and is growing faster than North-South trade. Increased trade flows mean more customers on the move, and banks tend to follow their customers.

Common languages and legal systems also play a part in regional cross-border banking, says Ms van Horen, because banks with knowledge of their neighbours have an advantage over those from richer places. The arrival of foreign banks means more opportunities for low-income countries, which might otherwise lack banking options. The increased competition has the potential to improve the domestic banking systems. For example, says the Global Development Finance report, South Africa's Stanbic raised the efficiency of the United Commercial Bank of Uganda; and Ecobank, a West African group, strengthened banks it took over in West and Central Africa.

But banks from places with weak regulations do pose a risk when buying in developing countries. “There's a trade-off between having some entry, not from the best banks, and adding some risk to the banking system,” says Stijn Claessens, another World Bank economist. The report finds that banks from developing countries can bring credit volatility and face more risk of a financial crisis in their home countries. They may also direct scarce credit away from good uses at home.

Although the reach of banks from developing countries is growing, they remain tiddlers next to those from rich countries. They hold just 5% of the foreign banking assets in all developing countries and 27% of those in economies where annual incomes are below $825 per head. As the number of banks increases, growth in assets is expected to follow. With trade expanding, investors in other developing countries are more likely to use local branches of familiar banks.

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About sponsorship

The global housing market

Checking the thermostat

Sep 7th 2006
From The Economist print edition

Property prices are cooling fast in America, but heating up elsewhere

HOUSES are not just places to live in; they are increasingly important to whole economies, which is why *The Economist* started publishing global house-price indicators in 2002. This has allowed us to track the biggest global property-price boom in history. The latest gloomy news from America may suggest that the world is on the brink of its biggest ever house-price bust. However, our latest quarterly update suggests that, outside America, prices are perking up.

America's housing market has certainly caught a chill. According to the Office of Federal Housing Enterprise Oversight (OFHEO), the average price of a house rose by only 1.2% in the second quarter, the smallest gain since 1999. The past year has seen the sharpest slowdown in the rate of growth since the series started in 1975. Even so, average prices are still up by 10.1% on a year ago. This is much stronger than the series published by the National Association of Realtors (NAR), which showed a rise of only 0.9% in the year to July.

The OFHEO index is thought to be more reliable because it tracks price changes in successive sales of the same houses, and so unlike the NAR series is not distorted by a shift in the mix of sales to cheaper homes. The snag is that the data take time to appear. Prices for this quarter, which will not be published until December, may well be much weaker. A record level of unsold homes is also likely to weigh prices down. The housing futures contract traded on the Chicago Mercantile Exchange is predicting a fall of 5% next year.

Elsewhere, our global house-price indicators signal a cheerier story. House-price inflation is faster than a year ago in roughly half of the 20 countries we track (see table). Apart from America, only Spain, Hong Kong and South Africa have seen big slowdowns. In ten of the countries, prices are rising at double-digit rates, compared with only seven countries last year.

European housing markets—notably Denmark, Belgium, Ireland, France and Sweden—now dominate the top of the league. Anecdotal evidence suggests that even the German market is starting to wake up after more than a decade of flat or falling prices, but this has yet to show up the index that we use, which is published with a long lag (there are no figures for 2006). If any readers know of a more timely index, please let us know.

Some economists have suggested that Britain and Australia are “the canaries in the coal mine”, giving early warning of the fate of America's housing market. The annual rate of increase in house prices in both countries slowed from around 20% in 2003 to close to zero last summer. However, the canaries have started to chirp again. In Australia average prices have picked up by 6.4% over the past year, although this is partly due to a 35% surge in Perth on the back of the commodities boom. Likewise British home prices have perked up this year, to be 6.6% higher, on average, than they were a year ago. Thus it is claimed that housing markets in Britain and Australia have had a soft landing.

Better still, their economies shrugged off the abrupt slowdown

in prices last year. Consumer spending slowed sharply, but did not slump. If the British and Aussie canaries have survived, it is argued, then this bodes well for American homes—and for the American economy.

That might be the wrong lesson to draw. The housing boom has been responsible for a bigger chunk of growth in America than it was in Britain. America's saving rate has plunged, and consumer spending surged as homeowners borrowed with gusto against their capital gains. Britain's saving rate fell more modestly, so when prices flattened, the impact on consumer spending was smaller than it is likely to be in America. In Australia the slowdown in housing did make a big dent in construction and consumer spending but this was masked by the commodity boom and exports to China. The risk is that a flattening of house prices in America could prove much more painful it has been so far in Britain or Australia.

The Economist's house-price indicators

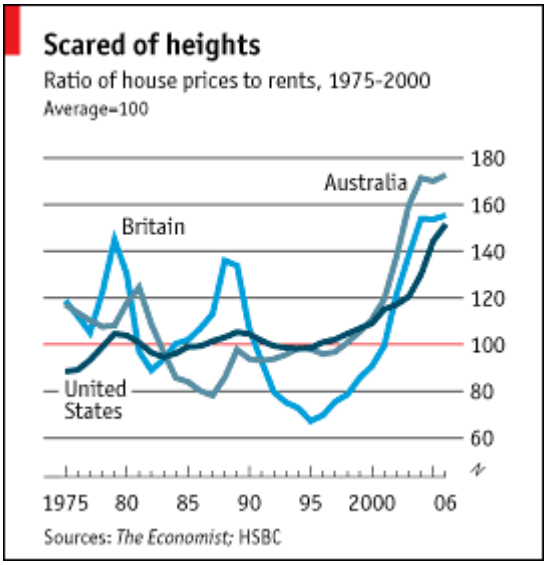
% change

	Latest	Q2 2005	
	on a year earlier		1997-2006*
Denmark	23.6	15.4	104
Belgium	18.0	19.2	102
Ireland	15.4	6.4	244
France	14.3	15.3	120
South Africa	13.5	25.1	315
Sweden	13.0	7.7	116
New Zealand	12.4	13.7	94
Canada	10.8	4.8	64
Spain	10.8	13.9	173
United States	10.1	14.0	98
Britain	6.6	6.1	184
Italy	6.6	8.5	88
Australia	6.4	1.9	126
Singapore	6.0	2.4	na
China	5.7	8.0	na
Netherlands	5.0	4.4	92
Switzerland	3.8	0.8	16
Germany	-0.8	-1.3†	-1
Hong Kong	-2.0	22.6	-44
Japan	-3.9	-5.4	-31

*Or 2005 latest †2004

Sources: ABSA; Bulwien; ESRI; Japan Real Estate Institute; Nationwide; Nomisma; NVM; OFHEO; Quotable Value; Stadim; Swiss National Bank; government offices

Not yet on terra firma



In any case, it is misleading to talk about a soft landing for house prices in Britain and Australia. The market has not really landed yet: prices are still sky-high relative to incomes and rents. The ratio of house prices to rents is a sort of price/earnings ratio for property. Just as the price of a share should equal the discounted present value of future dividends, so the price of a house should reflect the future benefits of ownership, either as rental income or as rent saved by an owner-occupier. Calculations by *The Economist* show that in Britain and Australia the ratios of prices to rents are respectively 55% and 70% above the long-term average (see chart). By the same gauge property is "overvalued" by 50% in America. Lower real interest rates than in the past would justify higher ratios, but nowhere near all of the rise in house prices.

An OECD study published last year adjusted the price/rent ratio for interest rates and other factors, to estimate how overvalued home prices were around the globe. Updating those figures to take account of price rises since then suggests that housing is now 35-50% overvalued in Britain and Australia and perhaps 20% too dear in America. A return to fair value will mean either rising rents or falling prices. If rents continue to rise at today's pace, many years of stagnant prices will be required to bring the price/rent ratio back to its long-term average. Especially after a giddy ascent, it is too soon to talk about a soft landing before a return to firm ground.

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Economics focus

Dismal science, dismal sentence

Sep 7th 2006
From The Economist print edition

The efficient markets hypothesis can land you in jail

JAMIE OLIS knows better than most people that the ideas conjured up by economists in their ivory towers can have a big effect on the real world. The tax accountant, found guilty of committing fraud while working for Dynegy, an energy-trading firm, has been doing time since March 2004, in large part thanks to a controversial economic theory, the efficient markets hypothesis. Last October an appeals court threw out Mr Olis's 24-year jail term, because Judge Sim Lake, who sentenced him, got his economics wrong. But Mr Olis stayed in prison pending resentencing, again by Judge Lake. That will follow a hearing, due on September 12th, that is likely to be dominated by a debate over market efficiency.

In essence the efficient markets hypothesis, which was developed in the 1950s and 1960s, says that subject to certain conditions, the market price of a security—a share, say—fully and accurately reflects all the available information relevant to its value. In an efficient market the only reason why a price changes is that new information comes to light.

This hypothesis has been hugely influential in the world of finance, becoming a building block for other theories on subjects from portfolio selection to option pricing. Of more relevance to Mr Olis, it also has the rare distinction, for an economic theory, of the approval of America's Supreme Court. In 1988, in *Basic Inc v Levinson*, the court endorsed a theory known as “fraud on the market”, which relies on the efficient markets hypothesis. Because market prices reflect all available information, argued the court, misleading statements by a company will affect its share price. Investors rely on the integrity of the price as a guide to fundamental value. Thus, misleading statements defraud purchasers of the firm's shares even if they do not rely directly on those statements, or are not even aware of them.

That ruling has proved a goldmine for America's trial lawyers, who have won fortunes by suing firms for damages when news (often, in practice, a restatement of their accounts) is followed by a sharp fall in their share prices. The fall is treated as proof of overvaluation due to the initial, wrong statement.

Increasingly, a similar logic has been used in criminal cases, as Mr Olis discovered. His 24-year sentence stemmed from a calculation of the financial loss caused to investors in Dynegy by Project Alpha, an accounting fraud in which he took part. That financial loss was estimated using the fall in Dynegy's share price on the news that Project Alpha was fraudulent. According to Judge Lake, it was so big that, under sentencing guidelines then in place, Mr Olis had to go to jail for a long time.

In rejecting that sentence, the appeals court ruled that Judge Lake had attributed far too much of the fall in Dynegy's share price to Project Alpha and too little to other news. Next week the prosecution and defence will each use economists as expert witnesses to debate exactly how much of the loss was due to Project Alpha. This will highlight several tricky technical issues that arise when applying the efficient markets hypothesis to fraud.

Exhibit Alpha

According to the prosecution's expert, Frank Graves, of the Brattle Group, a consultancy, Project Alpha was responsible for $4.45 of the $11.13 decline in Dynegy's share price on April 25th and 26th 2002, after the firm announced that it had reduced its reported profits because of the fraud. According to the prosecution, that justifies a sentence of up to 15 years for Mr Olis.

But in a paper filed on behalf of Mr Olis, Joseph Grundfest, a Stanford law professor and a former

commissioner at the Securities and Exchange Commission (SEC), claims that Mr Graves has made numerous technical errors. Correct these, writes Mr Grundfest, who is working *pro bono*, and a quite different conclusion follows: Mr Graves, he says, “fails to establish that Project Alpha inflated Dynegy's stock on any date by any amount” or that “any portion of Dynegy's stock price decline” on the dates in question can be attributed to Project Alpha.

Among other things, Mr Grundfest notes that the markets were also digesting far more serious news: of a pending SEC investigation into aspects of Dynegy's business that were unrelated to Project Alpha; and of threats by California's governor, Gray Davis, to try to reclaim profits made by energy traders, including Dynegy and its rival, Enron, by exploiting flaws in California's energy regulations.

More fundamentally, Project Alpha was designed to bring forward the date at which some profits were recognised in Dynegy's accounts; but its overall effect on the firm's cashflow over time was neutral. Surely in an efficient market investors would look past the accounts to the underlying economic reality, argues Mr Grundfest, so that the effect on the share price would be negligible. Indeed, he notes, Dynegy's share price did not fall on April 3rd, when the press first commented on problems with Project Alpha, a fact dismissed out of hand by Mr Graves.

None of these objections challenges the use of the efficient markets hypothesis. Yet for years the hypothesis has been under increasingly fierce attack in academia, unnoticed by the legal system. In a recent paper, Bradford Cornell, of California Institute of Technology, and James Rutten, of Munger, Tolles and Olson, a Los Angeles law firm, argue that even highly developed financial markets such as the New York Stock Exchange are not efficient enough to allow courts to use declines in share prices to calculate the financial damage caused by a fraud. In particular, markets often react disproportionately to news, especially bad news. They therefore conclude that estimates of damages based on the hypothesis and on share-price movements will be overstated. If Judge Lake has been spending the summer getting up to date on economics, perhaps Mr Olis will be out of prison much sooner than he must once have feared.

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Cancer genetics

Variations on a theme

Sep 7th 2006
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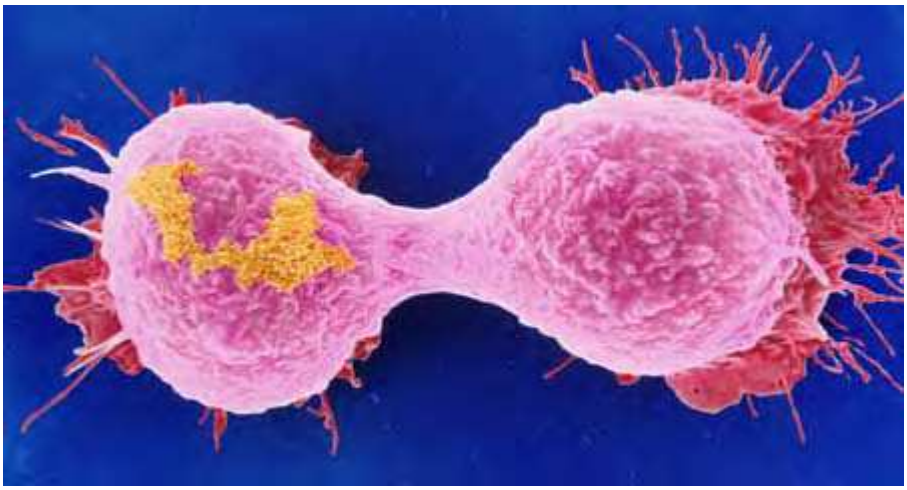

There are a lot more cancer genes around than were previously known

THE purpose of cells is to increase and multiply. That is what they do best. That, indeed, is a pretty good definition of being alive. Stopping a cell dividing into two, then four, then eight is hard. But in multicellular organisms it is essential, otherwise anarchy reigns. So special genes devoted to the task have evolved. It is when these genes mutate and go wrong that cancer develops.

Knowing all the genes whose mutation is involved in cancer would help researchers understand natural anti-cancer mechanisms and thus design better diagnoses and treatments. Until now, though, such genes have been discovered piecemeal, so no one knows how many there are. To overcome that ignorance, Victor Velculescu and his colleagues at the Johns Hopkins Kimmel Cancer Centre in Baltimore are starting a programme to look for all possible mutant genes in tumours, by comparing the DNA of healthy and cancerous cells. Their first results have been published in this week's *Science*.

Dr Velculescu's group has begun by studying breast and colorectal cancers, which together account for 20% of cancer diagnoses. They took 11 different samples of each of the two sorts of cancer and searched for mutated genes in them. They focused their efforts on just over 13,000 genes that have been well enough studied by the Human Genome Project for their DNA sequences to be known accurately. Obtaining the details of these genes from the genome project's databases made it possible for the researchers to locate and make copies of each relevant gene from each cancer sample. They then ran those copies through DNA-sequencing machines to see how the samples' genes differed from the reference genes.

Go forth and multiply

To start with, they found hundreds of thousands of differences, but many of these could be winnowed away. For example, a lot of changes in genes do not actually affect the composition of the protein for which that gene is a recipe. Such “silent” mutations can be ignored since, as they do not change the protein, they do not have much biological effect. There is also a certain amount of natural variation. Not all deviations from the genome project's reference sequences are harmful mutations. Many are harmless and widespread. A lot of these harmless alternatives are listed in another database. They, too, were screened out.

Once that had been done, the remaining potentially harmful mutations in each subject's cancer were checked against his healthy tissue, to see which mutations existed throughout his body and were thus not associated with the disease. Finally, the team found 24 more people with breast cancer and 24 with colorectal cancer, and looked at their tumours for the mutant genes that had got through the screening. If at least one of the newly selected tumours also had a mutated version of one of the genes in question, that gene was reckoned a good candidate as a tumour-causing gene. Or, more accurately, as a contributory cause. For one point about anticancer genes is that several have to go wrong in the same cell before a tumour can grow.

Dr Velculescu and his colleagues found about 190 genes that passed all the tests. Encouragingly, these included the previously known culprits among the two cancers in question. They also included dozens of new ones.

The mutated genes in breast cancers and colorectal cancers were almost completely distinct, suggesting the two cancers develop along different pathways. But within the two broad groups of cancer, any particular tumour had its own set of mutations. Breast cancers had between four and 23, with an average of 12. Colorectal cancers had between three and 18, with an average of nine.

That emphasises something that oncologists have long believed, namely that almost every individual case of cancer—not merely every type of cancer—is likely to be different. This helps to explain differences in the outcome of identical treatments for apparently identical cancers: at the genetic level those cancers are not identical at all. How long that observation will take to translate into personalised treatment is anybody's guess.

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Sex and scientists' salaries

Mind the gap

Sep 7th 2006
From The Economist print edition

Pay discrimination between male and female scientists

SEVEN years ago, a group of female scientists at the Massachusetts Institute of Technology produced a piece of research showing that senior women professors in the institute's school of science had lower salaries and received fewer resources for research than their male counterparts did. Discrimination against female scientists has cropped up elsewhere. One study—conducted in Sweden, of all places—showed that female medical-research scientists had to be twice as good as men to win research grants. These pieces of work, though, were relatively small-scale. Now, a much larger study has found that discrimination plays a role in the pay gap between male and female scientists at British universities.

Sara Connolly, a researcher at the University of East Anglia's school of economics, has been analysing the results of a survey of over 7,000 scientists and she has just presented her findings at this year's meeting of the British Association for the Advancement of Science in Norwich. She found that the average pay gap between male and female academics working in science, engineering and technology is around £1,500 ($2,850) a year.

That is not, of course, irrefutable proof of discrimination. An alternative hypothesis is that the courses of men's and women's lives mean the gap is caused by something else; women taking “career breaks” to have children, for example, and thus rising more slowly through the hierarchy. Unfortunately for that idea, Dr Connolly found that men are also likely to earn more within any given grade of the hierarchy. Male professors, for example, earn over £4,000 a year more than female ones.

To prove the point beyond doubt, Dr Connolly worked out how much of the overall pay differential was explained by differences such as seniority, experience and age, and how much was unexplained, and therefore suggestive of discrimination. Explicable differences amounted to 77% of the overall pay gap between the sexes. That still left a substantial 23% gap in pay, which Dr Connolly attributes to discrimination.

Besides pay, her study also looked at the “glass-ceiling” effect—namely that at all stages of a woman's career she is less likely than her male colleagues to be promoted. Between postdoctoral and lecturer level, men are more likely to be promoted than women are, by a factor of between 1.04 and 2.45. Such differences are bigger at higher grades, with the hardest move of all being for a woman to settle into a professorial chair.

Of course, it might be that, at each grade, men do more work than women, to make themselves more eligible for promotion. But that explanation, too, seems to be wrong. Unlike the previous studies, Dr Connolly's compared the experience of scientists in universities with that of those in other sorts of laboratory. It turns out that female academic researchers face more barriers to promotion, and have a wider gap between their pay and that of their male counterparts, than do their sisters in industry or research institutes independent of universities. Private enterprise, in other words, delivers more equality than the supposedly egalitarian world of academia does.

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About sponsorship

The Atkins diet

Y oh Y?

Sep 7th 2006
From The Economist print edition

An explanation of how the Atkins diet works

THE Atkins diet has been accused, variously, of causing a drop in bread sales, a rise in beef consumption, and bad breath in some of the world's most beautiful women. It allows a dieter to eat as much protein as he—or she—craves, so long as only negligible amounts of carbohydrate are consumed. And, if strictly adhered to, it seems to work. The question is, why?

Robert Atkins, the regimen's inventor, went to his grave believing that he had discovered a way to subvert the body's normal metabolic processes. He thought his diet somehow stimulated bodily tissues to burn more stored fat than they would otherwise have done. More recent research, though, suggests that is not so. Several studies have found that increasing the amount of protein in a person's diet speeds up and prolongs the feeling of being sated. This feeling reduces the dieter's desire to eat, and therefore the amount of food he consumes. An Atkins dieter is thus on a low-calorie diet in which no willpower is involved beyond a strict refusal to consume carbohydrates.

The reason why a high protein intake causes this feeling of fullness was, however, unknown. But no longer. Rachel Batterham of University College, London, and her colleagues think they have the answer. They have just published a paper in *Cell Metabolism* showing that the connection between protein intake and weight control is a small protein molecule, called peptide YY.

Peptide YY is a hormone that regulates hunger. Though it is released into the bloodstream from the gut, it actually acts in the arcuate nucleus of the hypothalamus, the part of the brain that controls appetite. That role was well known before Dr Batterham's study. She, however, was interested in exactly what stimulates peptide YY's release from the gut in the first place.

She suspected that dietary protein might be more effective in stimulating its release than dietary carbohydrate. She therefore asked for volunteers to go on a fast. After the volunteers had eaten nothing for 14 hours, Dr Battersham gave each a meal containing 1,200 calories. She asked them to go through this process three times, with a week's gap between fasts. On one occasion, most of the calories in the meal were in the form of protein. On another, they were in the form of fat. On the third, they were in the form of carbohydrate. The meals looked more or less identical and were rated by the volunteers as tasting equally pleasurable. The volunteers were also fed identically before fasting and were asked to keep their activities on the day preceding each study as similar as possible.

After the volunteers had eaten, Dr Batterham took blood samples from them every 30 minutes for an hour and a half, and measured the concentration of peptide YY. As she suspected, it was the high-protein meal that coaxed the greatest production of the peptide.

Having proved the point in people, she then turned to a more reliable laboratory animal—the mouse. First, she showed that mice do, indeed, respond to a high-protein diet in the way that people do. Both the short-term response (more peptide YY) and the long-term one (a reduction in obesity) were the same in rodents as they were in humans.

Having confirmed that similarity, she was able to experiment with the idea that peptide YY might be used directly as a slimming agent, thus getting rid of the side effects of a diet composed of meat, eggs and cheese—such as diabetes, heart disease, kidney disease, and liver and bone abnormalities. She did that by using mice that had had the gene for peptide YY knocked out of their DNA, and thus could not produce the hormone.

In this case, obese mice stay obese even when fed on the murine equivalent of Atkins. Dose them with

peptide YY at appropriate levels, though, and they will lose weight even on a normal, non-Atkins mix.

All of which is at least encouraging to those who find themselves unable either to tolerate the idea of a steak-and-more-steak diet, or simply to eat less and exercise more. Though many molecular magic bullets for weight loss have been tried in the past—and either failed, or had undesirable side-effects—hope springs eternal. So does pharmaceutical-company money. You will be hearing from peptide YY again.

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Medicine

Free to flutter

Sep 7th 2006 | NEW YORK
From The Economist print edition

A promising new artificial heart wins regulatory approval

ARTIFICIAL hearts have long been the stuff of science fiction. In “Robocop”, snazzy cardiac devices are made by Yamaha and Jensen, and in “Star Trek”, Jean-Luc Picard, captain of the *Enterprise*, has one implanted in the year 2328. In the present day, however, their history has been more chequered. The first serious attempt to build one happened in the 1980s, when Jarvik-7, made by Robert Jarvik, a surgeon at the University of Utah, captured the world's attention. But Jarvik-7 was a complicated affair that needed to be connected via tubes to machines outside the body. The patient could not go home, nor even turn around in bed. Various other designs have been tried since, but all were seen as temporary expedients intended to tide a patient over until the real thing became available from a human donor.

That may be about to change. This week, America's Food and Drug Administration gave its approval to a new type of artificial heart made by Abiomed, a firm based near Boston. The agency granted a “humanitarian device exemption”, a restricted form of approval that will allow doctors to implant the new device in people whose hearts are about to fail but who cannot, for reasons such as intolerance of the immunosuppressive drugs needed to stop rejection, receive a transplant. Such people have a life expectancy of less than a month, but a dozen similarly hopeless patients implanted with Abiomed's heart survived for about five months.

Unlike Dr Jarvik's device, this newfangled bundle of titanium and polyurethane aims to set the patient free. An electric motor revolving up to 10,000 times a minute pushes an incompressible fluid around the Abiomed heart, and that fluid, in turn, pushes the blood—first to the lungs to be oxygenated, and then around the body. Power is supplied by an electric current generated in a pack outside the body. This induces current in the motor inside the heart. All diagnostics are done remotely, using radio signals. There are no tubes or wires coming out of the patient.

The charger is usually plugged into the mains, but if armed with a battery it can be carried around for hours in a vest or backpack, thus allowing the patient to roam freely. Most strikingly, the device's internal battery can last half an hour before it needs recharging. That allows someone time to take a shower or even go for a quick swim without having to wear the charger.

Abiomed's chairman, Michael Minogue, does not claim that his firm's product will displace human transplants. Even so, the firm has big ambitions. It is already developing a new version that will be 30% smaller (meaning more women can use it) and will last for five years. That should be ready by 2008—320 years earlier than the writers of “Star Trek” predicted.

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Planetary science

Pluto fights back

Sep 7th 2006
From The Economist print edition

Not everyone is happy with Pluto's demotion

NEVER cheer for the coup until the countercoup has failed. Though Pluto has officially lost its lofty title of “planet”, a rebellion against its demotion is brewing.

The International Astronomical Union (IAU), which regulates such matters, decreed on August 24th that the ninth planet was not actually one after all. It is too small and too pathetic. It has not even managed to sweep up the cosmic detritus in its neighbourhood as real, macho planets like Jupiter and Earth have done. But fuelled by the knowledge that only 400 of the IAU's 9,000 members were available to vote at the crucial meeting, which was held in Prague, a web petition against the decision was promptly set up at www.ipetitions.com/petition/planetprotest.

Members of the public are also wielding the web. Sites such as www.plutoisaplanet.com and www.pleasesavepluto.org have been launched. Sales of “Pluto is a Planet” T-shirts are high. And a band called Jimmy and the Keyz has written a song called “They demoted Pluto”.

Official guardian of celestial terminology the IAU may be. But it is struggling to bat away the tomatoes being thrown at it by a sentimental public and a generation of schoolchildren who do not want to create new mnemonics to remember the names of the planets. Whether listening to public opinion is really the best way to arrive at scientific definitions is questionable. But there is a suspicion that the IAU's leaders may cave in to the pressure and find an excuse to reinstate Pluto at the next general meeting, in 2009.

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About sponsorship

Correction: Carl Hempel

Sep 7th 2006
From The Economist print edition

As several philosophers have written in to point out, it was not Carl Hempel's assertion that “all non-black objects are non-ravens” that was novel (“The non-denial of the non-self”, September 2nd). Philosophers going back to Aristotle had noted that. The novelty was his claim that this implied that observing a non-black non-raven—for example, a red herring—provides actual evidence for the idea that all ravens are black.

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Globalisation

Joe has another go

Sep 7th 2006
From The Economist print edition

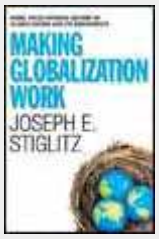
Illustrations

A Nobel prize-winner who remains an artist of the impossible

THIS is Joseph Stiglitz's second bite at the topic of globalisation, but his incisors are not as cutting as they were. The passions that excited his first popular book, “Globalisation and its Discontents”, published in 2002, have faded, he writes; calm now prevails. That book featured flames on the cover; this one pictures a bird's nest (in the American edition), and a ring of hearts (in the British one).

Mr Stiglitz's earlier, angrier forays, which began while he was chief economist of the World Bank from 1997 to 2000, created a lot of intramural ill-feeling at the International Monetary Fund (IMF), which was not used to such outspoken criticism from across the street. His indictment of the IMF's policies during the Asian financial crisis outraged the Fund rather less than his claim that it hires third-rank economists from first-rate universities. In his new book he makes only glancing reference to this bad blood, accusing the Fund of trying to discredit him, “rather than engage in intellectual debate”.

Making Globalisation Work
By Joseph E. Stiglitz



Norton; 358 pages; $26.95.
Penguin/Allen Lane; £20

Buy it at
Amazon.com
Amazon.co.uk

Here, he argues that speaking out was a duty, not an indulgence; intellectual consistency demanded no less. Mr Stiglitz still believes that the stewards of the world economy are intellectual slaves to an 18th-century metaphor (“the invisible hand”) and some mid-20th-century mathematics, which formalised Adam Smith's claim that competitive markets square private interests with the public good. Mr Stiglitz won the Nobel prize in 2001 for showing why that claim does not always hold. Economists applaud his work: they think it enriches their theory of markets. Mr Stiglitz, who has never knowingly undersold his wares, thinks it largely invalidates it.

The much-reviled Washington Consensus—with its faith in sound finances, hard money, free trade and limited government—was inspired less by theory than by history, in particular the damage Latin America suffered from deficits, inflation, protectionism and *dirigisme*. But economists do owe a lot of their

mystique to abstract theories the uninitiated do not understand. And they play this card when it suits them. Mr Stiglitz provides a salutary reminder that the algebra does not always favour one side of the globalisation barricades over the other.

But his book does not dwell long on theory. Mr Stiglitz acknowledges the inspiration of his wife, a seasoned reporter, in helping him to see things concretely. Every chapter is leavened with well-turned anecdotes and vignettes. The invisible fruit flies Americans imagined lurking in Mexico's avocado exports illustrate the very real protectionist threat lurking behind many phytosanitary standards; the ups and downs of Baku, an oil town in Azerbaijan, exemplify the curse of natural resources; an account of a visit to Moldova serves as a prelude to a chapter on foreign debt, and a chapter on multinational companies recalls the disgrace of the Bhopal gas leak. Global warming is not just a threat to the “planet”, it is also, more vividly, a threat to Montana's Glacier National Park.

The book also discusses patents, which encourage “me-too” drugs that do not break much new ground, while doing little for research on the diseases of the poor. And it includes an ambitious attempt to describe and fix the international reserve system.

But if the writing is crisp, the arguments are a little soggy. Mr Stiglitz assumes the worst of markets, the best of governments—except, of course, his own. Too often, he wants to have it both ways: his distaste for the IMF has made him suspicious of all technocratic bodies, even to the point where he questions the case for independent central banks. But at the same time he wants to set up international tribunals to rule on unfair tax competition, for example, or health standards. He says that debt relief for the poorest countries is “simply a matter of accounting”, because they could not repay anyway. But he also wants to argue that the burden of red ink has crippled them.

Despite his years in policy circles, he remains an artist of the impossible. Among his proposed solutions, he says that every country should open its markets to any economy that is both smaller and poorer. And any nation that does not impose a carbon tax to combat global warming should face tariffs from other countries that do. He argues that the dollar's role as the world's reserve currency gives America an exorbitant privilege—the ability to borrow heavily and cheaply from the rest of the world—and that Asia's determination to hoard dollars forces America to exploit this privilege. His proposal for “global greenbacks”, an alternative reserve currency issued not by one country, but by international fiat, is inspired by Keynes's intriguing idea of an international clearing union. But if Keynes couldn't usher the idea into reality, Mr Stiglitz certainly can't.

“Making Globalisation Work” is not a bad book but it arrives after books that are better. Jagdish Bhagwati's arguments are more convincing (“In Defence of Globalisation”), Paul Blustein's reporting is more reliable (“And the Money Kept Rolling In and Out”) and Martin Wolf provides a better guide to the economic research (“Why Globalisation Works”). That Mr Stiglitz, a great and original theorist, should spend his time writing a “me-too” globalisation book rather proves his point that markets sometimes misallocate resources.

Making Globalisation Work
By Joseph E. Stiglitz
Norton; 358 pages; $26.95.
Penguin/Allen Lane; £20

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Gertrude Bell

Gertrude of Arabia

Sep 7th 2006
From The Economist print edition

THIS excellent biography of Gertrude Bell, the woman behind the creation of modern Iraq, goes far towards making her a true heroine, a Gertrude of Arabia to match her friend, T.E. Lawrence. Indeed, there are moments when Georgina Howell seems a little starstruck: by her subject's brains, linguistic brilliance, administrative genius, not to mention her green eyes and auburn hair. And yet who wouldn't be starstruck? By all accounts Gertrude Bell was a phenomenon. Plus she wore beautiful clothes.

There's something to be said for being a woman in a man's world if you have the wit and nerve to carry it off. A Yorkshire woman, Gertrude Bell had both. At Oxford in 1888, she was the first woman to take a First in Modern History. She fell in love with the desert and its archaeological remains, and between 1900 and 1913 journeyed about 20,000 miles (more than 30,000km), from Istanbul to the Syrian desert, from Damascus to the Tigris. An unveiled woman, leading her caravan, she conversed with warrior chieftains and wrote it all down in her diary: the feuds and alliances, the routes and water sources, the flowers and ruins.

So far she might have been just another romantic adventurer especially as, between journeys, there were two sad love affairs. But the first world war changed all that. Turkey entered on Germany's side. All her knowledge and friendships were now hot information. In 1915 came the order: Major Miss Bell was to join the intelligence men in Cairo, “the first woman officer in the history of military intelligence”.

“I think there has seldom been such a series of hopeless blunders as the West has made about the East since the armistice.” So she wrote from the Paris Peace Conference in 1919. The story of Britain's promises of self-determination for the Arabs in return for their co-operation against the Turks is well-known—as is their betrayal by the Sykes-Picot Agreement, which parcelled them into “mandates” to be shared between Western powers. Gertrude Bell's insights into East-West relations resonate so strongly now that Ms Howell is to be congratulated for not pressing the point.

Like it or not, Iraq fell to the British share, and Gertrude Bell, who had already been working in Basra and Baghdad as Oriental secretary since 1916, liked it enough to feel passionately that this was a magnificent opportunity. London was thinking of Iraqi oil, but to her it was old-fashioned public service: “nowhere in this war-shattered universe”, she wrote, “can we begin more speedily to make good the immense losses sustained by humanity.”

With a skill and clarity worthy of her heroine, Ms Howell evokes the diversity of religions, interests and traditions that Gertrude Bell understood so thoroughly. What emerges is a woman who, though officially part of the male world, never conformed to it. Institution building was a matter of personal relations. She spoke to everyone: farmers, merchants, clerics, princes. “One catches hold of people,” she wrote. “It's so intimate...It's the making of a new world.” When she died, in Baghdad in 1926, it was reported that the whole city, together with Islamic leaders and desert sheikhs, turned out to follow her coffin.

Daughter of the Desert: The Remarkable Life of Gertrude Bell.
By Georgina Howell.
Macmillan; 518 pages; £20.
To be published in America as “Gertrude Bell” by Farrar, Straus and Giroux in February 2007

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English poetry

For him the bell tolled

Sep 7th 2006
From The Economist print edition

THE thrill of discovering John Donne's deliriously inventive “Songs and Sonets” is one of the great perks of turning up to English lessons at school. Those who wish to learn more about the life of the Renaissance poet have several biographies to choose from, including this new one by John Stubbs. Donne wrote “No man is an Island”, and Mr Stubbs carefully explains that we can understand him “not by treating him as an island, but by seeing his place on the volatile island he inhabited”.

Donne: The Reformed Soul
By John Stubbs

Viking; 565 pages; £25

Buy it at
Amazon.com
Amazon.co.uk

He was born in London in 1572. His father was a successful ironmonger. His mother was much grander, a descendant of the martyred Sir Thomas More, and he was raised a Roman Catholic at a time of fervent post-Reformation Protestantism. He went up to Oxford aged 12, which was not unusual at the time, especially for Catholic children. Later, as a law student at the Inns of Court, he earned a reputation as a poet, wit and ladies' man.

Donne may, as Mr Stubbs believes, have joined two naval expeditions, to Cadiz and the Azores. In 1598 he became secretary to the Lord Keeper of the Great Seal, Sir Thomas Egerton. But his promising career at court hit the buffers when he secretly married his boss's niece, Ann. “John Donne, Ann Donne, undone” he is said to have written on the back of a door on their wedding day. And so they were.

His father-in-law failed to get the marriage declared illegal but found other ways to make the couple's life miserable. For nearly a decade Donne struggled to support his wife and their many children. The chapters dealing with these unhappy years are the most impressive in the book.

Donne was 43 when he agreed to be ordained in the Protestant church. He was awarded a doctorate in divinity by Cambridge and spent his last ten years as Dean of St Paul's. “For almost 60 years Donne had survived by altering,” Mr Stubbs sums up. “He had transformed himself from a closeted Catholic, as boy and youth, to a government secretary; from social outcast, after he married, to a pillar of the community, as a priest; from avant-garde poet, in his writing, to popular preacher.”

The book's main points are uncontroversial: that Donne is best understood in the context of his time and place; that although he adapted to changing circumstances, he remained true to himself; and that he was always keenly aware of death. Consequently, Mr Stubbs does not offer a new Donne, but does offer a fairly thorough account of the one we know.

The trouble is that his biography seems to have been written with both a popular and a scholarly readership in mind. This gives rise to a couple of problems. One is the oddly mixed tone. There is a frequent crunching of gears as Mr Stubbs shifts between a conversational and a more highfalutin' register. A much bigger problem is his decision to shy away from sustained discussion of Donne's poetry as poetry. Poems are quoted and paraphrased but Mr Stubbs offers next to nothing in the way of analysis. Did his publisher think this would put off ordinary readers? If so, it is more than a missed trick. There is little in these 500-plus pages to remind readers of the astonishing vibrancy and strangeness of Donne's poetic imagination.

Donne: The Reformed Soul.
By John Stubbs.
Viking; 565 pages; £25

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Shia Muslims

A fiery crucible

Sep 7th 2006
From The Economist print edition

ISLAM'S perennially subservient second sect, the Shias account for no more than 15% of the world's 1.3 billion Muslims, and are atomised by geography, race and even credo. Given this, it might seem rash to credit them with the ability to challenge their Sunni co-religionists, let alone determine events across the Middle East. Yet this is what Vali Nasr, who makes his academic living in America exploring links between Islam and politics, would have us believe is happening. As Iran-backed Hizbullah, a militant Shia group, struts Lebanon's stage, it's a timely point to make.

The Shia Revival: How Conflicts within Islam will Shape the Future
By Vali Nasr

Norton; 304 pages; $25.95 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

For Mr Nasr, the Iranian revolution of 1979, which installed Shia theocracy, was a false start: the revolutionaries won few supporters outside Iran. But George Bush's dislodging of two chauvinistically Sunni regimes, in Afghanistan and Iraq, has given Shias new leeway to affect the region's politics. In Iraq the price of Shia dominance has been civil war. In other Sunni countries, such as Saudi Arabia, Shia minorities have won modestly enhanced rights. The future of a region stretching from North Africa to Pakistan will, the author argues, “be decided in the crucible of Shia revival and the Sunni response”.

The value of Mr Nasr's account lies in the context he gives to today's headlines. Briskly, but with the authority of someone who knows the countries he discusses, he explains the emergence in the early days of Islam of a rift between backers of the Umayyad caliphate, who would later be called Sunnis, and their Shia opponents, who supported the leadership claims of the descendants of the Prophet Muhammad. The Sunnis won and Shias would henceforth identify themselves with martyrdom and suffering.

Not without reason: although some Shia dynasties, such as the Fatimids in Egypt, did hold sway for long periods, Islam's early caliphs often oppressed their Shia subjects. And ever since the 17th century, when Iran's Safavid dynasty made the country irrevocably Shia, nearby Sunni states have fretted about Iran's influence on their Shia minorities.

Mr Nasr ranges over these Sunni-majority countries to good effect. In Pakistan, for instance, he describes how the inclusive secular nationalism of the country's first leader, Muhammad Ali Jinnah (a nominal Shia) gave way to Sunni majoritarianism promoted by Shia-averse Saudi Arabia. As for Arab Shias, they often strove to be good Arab nationalists and supported the Sunni Palestinians, but were rarely thanked. When the Israelis invaded Lebanon in 1982, some Shias greeted them.

Even now, the author recalls, not all attempts to bridge the sectarian divide are peaceful; Sunni-Shia harmony is a prerequisite, it is often argued, to success in the wider fight against America and Israel. Writing about Lebanon before the latest war, Mr Nasr points to the future by saying that Hizbullah has “defused Shia-Palestinian tensions by focusing attention on the fight against Israel”.

Strangely, his weakest chapter concerns his native Iran. He overstates Iran's ability to lead a Shia revival, largely because he discounts Iranian nationalism and the age-old enmity between Arabs and Persians. His equation of Iran's current position to Germany's romp to world-power status under Bismarck is wide of the mark. Iran is the same fragile place it was a few years ago. America's mistakes in Iraq and the pitch of Muslim-Israeli tensions have given it a largely illusory sense of power.

On Iraq, the most obvious “crucible”, Mr Nasr is not encouraging. Sectarian strife, he concludes, is likely to be a “central legacy” of Mr Bush's Iraqi adventure.

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About sponsorship

Philosophy

A rather lengthy conversation

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From The Economist print edition

FEW writers of fiction have matched Michael Frayn's success with both novels and drama. In the 1960s his first two novels won major prizes, and his latest one, “Spies”, took the Whitbread novel award in 2002. His two most recent plays, “Copenhagen”, about a meeting between two of the founders of quantum mechanics, and “Democracy”, about the East German spy who worked for Willy Brandt, are just as popular as his light comedies once were. His latest offering is a magnum opus on philosophy. In 1974, he published “Constructions”, a collection of philosophical observations which turned out to be whimsical and a flop. But now that he is practically a grand old man of English letters, Mr Frayn's second venture into metaphysical waters is serious stuff.

“The Human Touch” is about a question which Mr Frayn says has puzzled him for most of his adult life. How much of man's conception of the world reflects an independent reality, and how much of it is made up by us? We are faced, he thinks, with a paradox. On the one hand, we know that when mankind ceases to exist, “the universe will go on as if we had never been”. On the other hand, we know (or so he says) that “if we go, so does everything”. As a peg on which to hang a tour through many parts of the far-flung empire of philosophy, this dilemma is perhaps as promising as any. But Mr Frayn is far too sensible and modest a British sort of chap to embrace its second horn with much enthusiasm. He knows that pretty much everything will in fact continue perfectly well without him or indeed anybody.

The Human Touch: Our Part in the Creation of a Universe
By Michael Frayn

To be published in America by Metropolitan Books in February 2007; 512 pages; $32.50.
Faber and Faber; 505 pages; £20

Buy it at
Amazon.com
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So what he tries to do is extract kernels of truth from the varieties of subjectivism. One area in which to attempt this is quantum mechanics, which is widely believed to set severe and baffling limits to an objective conception of the world. Mr Frayn frankly admits that he is no expert in the field and must rely on popular accounts of which he understands only a fraction. It is a little unnerving to read popularisations of partly digested popularisations. But his light touch and abundant common sense make his efforts to navigate parallel universes and the other exotica that are the stock in trade of this genre a refreshing novelty—at least for some of the time.

As one might expect from a journalist and translator, the sections on language are particularly engaging. And as one might expect from a brilliant crafter of farces, a delightful wit regularly peeps through the thickets. Yeswell Sortov, a fictitious and vague philosopher, is a fine invention. And Mr Frayn's suggestion that one purported solution to the puzzles of quantum mechanics (namely the so-called “many-worlds interpretation”) is analogous to invoking elves and pixies to solve the “disappearing-sock problem” of domestic laundry is well done.

But at more than 400 pages, plus 60 more of dense footnotes, the book is too long to be saved by whimsical interjections. More focus would have helped: there is not enough theme, and too many variations. Mr Frayn's characteristic modesty seems to prevent him from driving his argument all that hard. He says that he intends the book as an exploration conducted together with his gentle readers—more a conversation than a tract. Perhaps he should have written it as a play.

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Faber and Faber; 505 pages; £20.
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About sponsorship

Brazilian art

Realm of the senses

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From The Economist print edition

Ernesto Neto makes art to be touched and smelled as well as seen

MANY artists attempt to fuse art and life, but Ernesto Neto took this one step further when he married his pregnant girlfriend in one of his vast, womb-like sculptures. For the Brazilian artist this symbolic gesture emphasised his idea that creative fusion—sexual and artistic—is vital for life and art. “All my work is about our connection to the world, it is about relationships, about union,” says Mr Neto, who describes his all-enveloping work as a kind of skin. “The skin is the end of yourself and the beginning of the other. It is the place of encounter. I want people to see my sculpture through their pores, as well as their eyes, to feel it with all their senses.” So far it seems to be working: appreciative viewers often leave lipstick kisses on his silky sculptures.

An all-enveloping stocking

Until now, he has created larger-than-life, amorphous, sensual environments out of Lycra material filled with a variety of substances, including pungent, colourful spices, sand and Styrofoam. Now, with a massive installation taking over the Panthéon in Paris this autumn (as well as shows in Zurich and New York), he is creating a tropical dreamscape in the heart of one of Europe's most rationalist structures.

Entitled “Leviathan”, Mr Neto's new installation openly defies the Panthéon's neoclassical symmetry. Viewers walk through a jungle of massive, pendulous organic forms: heavy and light, big and small, hanging like strange, over-ripe fruit in a chaotic criss-cross of weights and balances beneath the famous dome.

Mr Neto loves the contrast of his exuberant work with this sober environment. He refers to Europe as a “supercivilisation”. As he explains:

> When you look at countries like France and Switzerland, the relationship between the figure and the background is always distinct. Everyone knows where they stand, there are fixed

rules, the order is clear. In Brazil, the relationship between the figure and the background is fluid and blurred. There is a lot of creative thinking and interaction between people.

He is now trying to turn the Panthéon into a new space for interaction. Voltaire is buried there, as is Rousseau. A church built by Louis XV, it was turned by the leaders of the revolution into a mausoleum for the great men of France. “If you think about the transformation of society from feudalism to democracy,” says Mr Neto, “the Panthéon is a symbol of this movement.”

His title “Leviathan” refers to Thomas Hobbes's “Leviathan”, a book that discusses the construction of the state by describing it as a monster. “The work is an opportunity to think about the state again and how things are now,” he says. “Leviathan” also refers to the biblical story of Jonah and the whale and being swallowed up. For Mr Neto all these ideas connect in a free-form way. He likens the creative process to the kind of spontaneous movement you see at a party, filled with different circles of people. “To move through them you can never make a straight line, instead you have to move in between them and you make a new line. It is organic, biological movement.”

Since representing Brazil at the Venice Biennale in 2001, the 42-year-old artist has shot to success for creating globular, amorphous environments called *Naves* (ships), made out of stretchy, translucent stocking material. Currently, a *Nave* is on display at the Daros Foundation in Zurich, and walking through it is like floating: you lose your bearings and move in slow motion, as though doing a moon walk. In the room-sized installation, where the skin-coloured floor, ceiling and matrix of columns are all made of silky Lycra tulle, you stumble, clutch at the soft columns and finally tumble into the squishy floor. The effect is disorientating: instead of just looking at the work of art, you are enveloped by it.

For Mr Neto, art has to be sensual and to interact with its audience in an intimate, bodily way. Such an attitude is not unusual for a Brazilian. In the 1960s, Brazilian artists experimented with applying geometric abstraction to the body and, since then, many artists have explored corporeal themes in ways that connect art with life. “Developed societies are too purely visual,” says Mr Neto. “Brazil still has traces of primitive societies that rely on all of their senses. My work is atmospheric and intuitive. We have to feel our way through situations—to swing a little—otherwise we're going to crash.”

Ernesto Neto is part of “Seduçoes”, Daros-Latinamerica, Zurich, until October 15th. “Leviathan Thot” is at the Festival d'Automne, Panthéon, Paris, from September 14th to December 19th. Mr Neto's work is also part of “Tropicália: A Revolution in Brazilian Culture”, Bronx Museum of the Arts, New York, from October 7th to January 28th 2007.

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About sponsorship

Steve Irwin

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From The Economist print edition

Getty Images

Steve Irwin, crocodile hunter, died on September 4th, aged 44

SOME of his fans thought he was dead long since. Bitten by a venomous snake that had left the real Steve Irwin out in the bush-grass, dead as a maggot. Chomped in half by a croc as he gave it a loving hug. Paralysed by some spider that had crept into those teeny-tiny shorts and sunk its fangs into him. Pricked by a beetle that had burrowed into his ear, into his brain. But “Nah!” he would cry, jumping up and waving his arms: “I'm still here, mate.”

Thousands of bits had been taken out of him by the animals he loved and provoked. One croc had “caved” his face, another had grabbed his hand and dragged him under. No worries: nothing poisonous had ever got him. Sure, he felt nervy when he “went in on” apex predators, but fear was good. It let him survive. Besides, if a poisonous snake didn't bite him in the first 30 seconds, he knew it was a softie that would settle in his hands and slither round his neck like a tie. Only parrots he was scared of. They had this uncanny desire to peck him completely to death.

For 169 episodes of “The Crocodile Hunter”, “Croc Files”, and “Croc Diaries”, watched by 500m people in 136 countries, Mr Irwin diced with death-by-animals. He got close, really close. His smooth blond face filled the screen, eyes goggling, tongue flicking out to kiss a flickering snake's. Creep up to a sleeping mamba, tweak it by the tail. Crikey! Run a lawnmower at a croc, see it launch itself right into the air to seize him. Help! “There's a cheetah. Wanna see that cheetah?” Steve would whip his camera from his little green back-pack and poke it practically into the creature's mouth, scanning the molars. Aaarrrghhh! Better run! Danger, danger, danger.

His excitement had been going at full tilt for years. As a toddler he put his foot deliberately on a large brown killer snake; it seemed to like it. At six he got 12 feet of scrub python for his birthday, and spent his days at the creek catching frogs for it. At nine his father, a naturalist who had started a reptile park on the Queensland coast, taught him to stalk crocs at night and lug them out of the water. He made a living from that for a time. While other young men were chundering and barracking in the bars of Brisbane he was up to his arse in a mangrove swamp, tormented by mozzies, roping rogue crocs single-handed for the Queensland government.

Though he played the boofhead both onscreen and off, he was serious about wildlife. His clowning was to get interest going. He eventually owned not just his parents' reptile park (turned into the Australia Zoo, “Where Crocs Rule!”) but 30,000 hectares in Australia, Vanuatu, Fiji and the United States, which he kept as natural reserves. He railed against the farming of animals for leather, fur or ivory and the culling of kangaroos by the Australian government: “You never save any wild animal by killing it.” He abominated

his country's determined land-clearing. In Timor-Leste, to local astonishment, he caught and penned up two crocodiles to stress that they should be respected.

The face of Australia

Could Mr Irwin himself be respected? Australia was divided. He did stupid things, such as feeding a chicken carcass to a crocodile while cradling, as tenderly as a six-pack of Fosters, his month-old baby son. (He never gave a rip, either; he had been “completely in control”.) To promoters of Australia as an urban, sophisticated, cosmopolitan place, he was a prancing horror, a big-booted oaf from the outback who reminded everyone of the rough edges of Australian life. Even in the good cause of conservation he was loud, bloody loud, in his unmodulated Strine. And he was naive in a wide-eyed, right-wing way, almost genuflecting to John Howard as he called him “the greatest leader in the entire world”.

A few wowsers yearned for a different face of Australia, such as Olivia Newton-John. But Mr Irwin won out. He loved his country with a passion, and people the world over took him as its exemplar. Americans raised on “Crocodile Dundee” now assumed that all Australian men could wrestle with tigers and anacondas while getting over cruciate-ligament surgery, as Stevie once showed them live on campus (“G'day LA!”) at the University of California. He brought tourists to Australia by the plane-load, though they half-dreaded what they would find there.

He was filming again, diving off the Great Barrier reef for a children's TV series, when a stingray got him. It would probably have ignored him, floating quietly by, but Mr Irwin went over the top of it, almost on its back, observing. Its tail, venom-coated and serrated, pierced his chest and stopped his heart. He managed to pull the barb out, but not fast enough.

He had always got away before, but it had often been a close-run thing. After the poking, joking and prodding would come a shot of Steve retreating, tumbling, shouting, hands up to his face, as the creature came after him. He was not that quick. He was human.

Australia, plunged into grief despite its carping, talked of holding a state funeral for him. But the last word on Steve Irwin seemed to belong to Africa's greatest crocodile-hunter, Khalid Hassen, bagger of 17,000 crocs the easy way, with a rifle, who said it simply didn't seem right that a fish should have killed him.

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Overview

Sep 7th 2006
From The Economist print edition

America's businesses (excluding farms) added 128,000 workers to the payrolls in August. The **unemployment rate** fell slightly, to 4.7%. Unit labour costs are also rising faster than previously thought. In the second quarter they increased at an annual pace of 4.9% (in the non-farm business sector), compared with earlier estimates of 4.2%; in the first quarter they rose by a revised 9%.

America's house prices increased by just 1.2% in the second quarter, according to the Office of Federal Housing Enterprise Oversight, which publishes the most reliable, but least timely, house-price figures. This was the smallest quarterly gain since 1999 and a marked slowdown from the 2.2% increase recorded in the first quarter.

In **Japan** companies raised their investment spending by 16.6% in the year to the second quarter. The figures were stronger than expected and helped to lift the yen, which had been languishing.

In the **euro area** the volume of retail trade grew by 2.5% in the year to July. But surveys of purchasing managers a month later revealed a slowdown in both services and manufacturing. The index for services fell to 57.1 in August from 57.9 in July; the index for manufacturing fell to 56.5 from 57.4.

Britain's industrial production in the three months to July was only 0.1% higher than in the previous three months.

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Output, demand and jobs

Sep 7th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q2	+ 1.3	+ 3.2	+ 3.3	– 1.0	Q1	+ 3.6	Q2	4.9	Aug	5.0
Austria	+ 3.0	Q2	+ 4.0	+ 2.4	+ 1.9	+ 6.2	Jun	+ 0.9	Jun	4.8	Aug	5.3
Belgium	+ 2.8	Q2	+ 3.2	+ 2.6	+ 1.9	+ 1.9	Jun	– 1.6	Jun	13.0	Jul†	13.4
Britain	+ 2.6	Q2	+ 3.4	+ 2.6	+ 2.5	– 0.5	Jul	+ 4.0	Jul	5.5	Jun‡	4.8
Canada	+ 2.9	Q2	+ 2.0	+ 3.1	+ 2.8	+ 0.4	Jun	+ 6.4	May	6.4	Jul	6.8
Denmark	+ 2.4	Q2	+ 7.8	+ 2.7	+ 2.3	+ 5.6	Jul	+ 3.4	Jul	4.5	Jun	5.8
France	+ 2.6	Q2	+ 4.7	+ 2.2	+ 2.0	+ 2.8	Jun	+ 1.5	Jun	8.9	Jul	9.9
Germany	+ 2.4	Q2	+ 3.6	+ 2.0	+ 1.3	+ 4.5	Jun	nil	Jul	10.6	Aug§	11.7
Italy	+ 1.5	Q2	+ 1.9	+ 1.5	+ 1.2	+ 3.6	Jun	– 0.4	May	7.4	Q1	7.8
Japan	+ 2.0	Q2	+ 0.8	+ 2.8	+ 2.3	+ 5.1	Jul	– 0.6	Jun	4.1	Jul	4.4
Netherlands	+ 2.4	Q2	+ 4.0	+ 2.5	+ 2.2	+ 1.9	Jun	+ 8.8	May	5.4	Jul††	6.7
Spain	+ 3.7	Q2	+ 3.6	+ 3.3	+ 2.8	+ 5.4	Jun	+ 0.7	Jun	7.6	Jul	8.5
Sweden	+ 5.5	Q2	+ 5.6	+ 4.1	+ 2.9	+ 1.5	Jul	+ 7.8	Jul	6.0	Jul†	6.9
Switzerland	+ 3.2	Q2	+ 3.0	+ 3.0	+ 1.9	+ 9.2	Q1	+ 0.8	Jun	3.1	Jul†	3.5
United States	+ 3.6	Q2	+ 2.9	+ 3.4	+ 2.5	+ 4.9	Jul	+ 2.5	Jul	4.7	Aug	4.9
Euro area	+ 2.4	Q2	+ 3.6	+ 2.3	+ 1.8	+ 4.3	Jun	+ 2.5	Jul	7.8	Jul	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q1	+ 1.6	na	na	+12.5	Jul	+ 6.5	Jun	7.7	Jul	8.3
Greece	+ 4.1	Q2	na	na	na	+ 2.6	Jun	+ 6.9	May	9.7	Q1	10.4
Iceland	+ 5.0	Q1	na	na	na	na		na		1.3	Jun†	2.1
Ireland	+ 5.8	Q1	+ 4.4	na	na	+ 3.6	Jun	+ 6.3	Jun	4.4	Aug	4.4
Luxembourg	+ 7.3	Q1	na	na	na	– 1.4	May	– 4.7	Jun	4.1	Jul	4.0
New Zealand	+ 2.1	Q1	+ 2.3	na	na	– 0.7	Q1	+ 0.9	Q2	3.6	Q2	3.7
Norway	+ 5.4	Q1	+ 2.3	na	na	+ 1.7	Jun	+ 4.6	Jun	3.2	Jul	4.7
Portugal	+ 1.0	Q1	+ 1.8	na	na	+ 1.7	Jun	+ 4.7	Jul	7.3	Q2†	7.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Apr-Jun; claimant count rate 3.0% in Jul.
§EU harmonised rate 8.2% in Jul. ††May-Jul.

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Prices and wages

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% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 4.0	Q2	+ 2.5	+ 3.2	+ 2.7	+ 9.9	Q2	+ 6.9	+ 4.7	Q2	+ 5.8
Austria	+ 1.5	Jul	+ 2.3	+ 1.9	+ 1.8	+ 3.9	Aug	+ 0.9	+ 2.7	Jul	+ 2.3
Belgium	+ 1.6	Aug	+ 3.1	+ 2.1	+ 1.9	+ 6.3	Jul	+ 1.9	+ 2.3	Apr	+ 2.6
Britain	+ 2.4	Jul*	+ 2.3	+ 2.2	+ 2.1	+ 2.8	Jul	+ 3.1	+ 4.3	Jun†	+ 4.1
Canada	+ 2.4	Jul	+ 2.0	+ 2.3	+ 2.1	+ 4.3	Jul	− 0.3	+ 0.3	May	+ 1.0
Denmark	+ 2.0	Jul	+ 2.0	+ 2.0	+ 2.0	+ 4.6	Jul	+ 4.7	+ 3.2	Q2	+ 2.9
France	+ 1.9	Jul	+ 1.7	+ 2.0	+ 1.7	+ 3.9	Jun	+ 2.9	+ 3.1	Q2	+ 3.0
Germany	+ 1.7	Aug	+ 1.9	+ 1.8	+ 2.3	+ 4.6	Jul	+ 2.5	+ 1.0	Jun	+ 0.9
Italy	+ 2.2	Aug	+ 2.0	+ 2.2	+ 1.9	+ 6.9	Jul	+ 3.6	+ 3.0	Jul	+ 2.8
Japan	+ 0.3	Jul	− 0.3	+ 0.4	+ 0.8	+ 3.4	Jul	+ 1.6	− 0.3	Jul	+ 2.5
Netherlands	+ 1.4	Aug	+ 1.8	+ 1.5	+ 1.6	+ 5.3	Jul	+ 5.3	+ 1.9	Jul	+ 0.7
Spain	+ 4.0	Jul	+ 3.3	+ 3.7	+ 3.0	+ 6.4	Jul	+ 4.6	+ 3.0	Q1	+ 2.5
Sweden	+ 1.7	Jul	+ 0.3	+ 1.5	+ 1.9	+ 3.7	Jul	+ 3.7	+ 3.8	Jun	+ 3.0
Switzerland	+ 1.4	Aug	+ 1.0	+ 1.3	+ 1.4	+ 2.9	Jul	+ 1.1	+ 1.0	2005	+ 0.9
United States	+ 4.1	Jul	+ 3.2	+ 3.5	+ 2.6	+ 4.2	Jul	+ 4.7	+ 3.9	Aug	+ 2.7
Euro area	+ 2.3	Aug	+ 2.2	+ 2.2	+ 2.1	+ 5.9	Jul	+ 4.1	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Jul	+ 1.0	na	na	+ 6.0	Jul	+ 4.0	+ 2.9	Q2	+ 3.7
Greece	+ 3.5	Aug	+ 3.7	na	na	+ 7.2	Jul	+ 5.1	na		na
Iceland	+ 8.6	Aug	+ 3.7	na	na	+11.5	Aug	+ 4.3	+10.2	Jul	+ 6.6
Ireland	+ 4.2	Jul	+ 2.4	na	na	− 0.2	Jul	+ 0.2	+ 2.2	Q1	+ 6.4
Luxembourg	+ 2.9	Jul	+ 2.6	na	na	+ 7.3	Jun	+ 6.4	+ 2.7	May	+ 2.0
New Zealand	+ 4.0	Q2	+ 2.8	na	na	+ 7.8	Q2	+ 4.7	+ 3.3	Q2	+ 2.6
Norway	+ 2.2	Jul	+ 1.4	na	na	+13.7	Jul	+19.3	+ 3.6	Q2	+ 3.8
Portugal	+ 2.3	Jul	+ 2.2	na	na	+ 4.8	Jul	+ 4.1	+ 1.0	Jun	− 0.5

*RPI inflation rate 3.3% in Jul. †Apr-Jun.

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Economic forecasts

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September averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		Average					
	2006	2007	2006	2007	2006	2007	2006	2007
Australia	2.9/3.6	2.6/3.9	3.2	3.3	3.2 (3.0)	2.7 (2.8)	-5.7	-5.3 (-5.4)
Austria	1.8/3.0	1.4/2.2	2.4 (2.3)	1.9 (2.0)	1.9 (2.0)	1.8	0.5 (0.4)	0.4 (0.5)
Belgium	2.4/2.8	1.5/2.2	2.6 (2.4)	1.9 (2.0)	2.1 (2.2)	1.9	1.5	1.6
Britain	2.2/2.8	2.0/2.9	2.6 (2.4)	2.5	2.2 (2.1)	2.1 (1.9)	-2.7 (-2.8)	-2.7 (-2.9)
Canada	2.7/3.4	2.6/3.0	3.1 (3.2)	2.8 (2.9)	2.3	2.1	2.3	1.5 (1.6)
Denmark	2.1/3.5	2.0/3.1	2.7	2.3	2.0	2.0	2.0 (2.2)	1.8 (1.9)
France	1.9/2.5	1.7/2.7	2.2 (2.0)	2.0	2.0 (1.9)	1.7 (1.6)	-1.7 (-1.8)	-1.4 (-1.5)
Germany	1.5/2.6	0.6/2.2	2.0 (1.7)	1.3	1.8 (1.9)	2.3	3.6 (3.5)	3.6 (3.5)
Italy	1.0/1.8	0.6/2.0	1.5 (1.3)	1.2 (1.1)	2.2	1.9 (2.0)	-1.7	-1.5
Japan	2.5/3.1	1.6/3.0	2.8 (3.0)	2.3 (2.4)	0.4 (0.5)	0.8 (0.6)	3.6 (3.7)	3.5 (3.6)
Netherlands	1.9/3.0	1.6/2.9	2.5 (2.2)	2.2 (2.1)	1.5	1.6 (1.5)	6.0 (5.9)	5.9 (5.8)
Spain	3.2/3.7	2.5/3.0	3.3	2.8	3.7	3.0	-8.0 (-7.9)	-7.7 (-7.8)
Sweden	3.3/4.8	2.4/3.3	4.1 (3.6)	2.9	1.5 (1.4)	1.9 (1.8)	6.7	6.0
Switzerland	2.4/3.5	1.1/2.5	3.0 (2.8)	1.9 (2.0)	1.3	1.4 (1.3)	12.7	12.1 (11.9)
United States	3.1/3.7	1.9/3.2	3.4	2.5 (2.7)	3.5	2.6	-6.7	-6.7 (-6.8)
Euro area	1.9/2.8	1.4/2.7	2.3 (2.2)	1.8	2.2	2.1	-0.4	-0.2 (-0.3)

Sources: ABN AMRO, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Citigroup, Scotiabank, UBS

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances in 15 countries and the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel now expects America's GDP growth to slow to 2.5% in 2007, compared with August's prediction of 2.7%. The soothsayers think that the euro area will grow by 2.3% this year (up from 2.2% in August), then slow to 1.8% next year. Germany's growth in 2006 has been revised up from 1.7% to 2.0%. But Japan is now tipped to grow by 2.8%, down from August's prediction of 3.0%. The biggest upward revision is in Sweden's growth this year: it is now forecast to be 4.1%, the fastest of all the economies in the table.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % p.a. (Sep 6th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 9.4	+10.4	Jul	6.24	5.63	5.87	5.66	5.14	6.90
Britain	+ 5.4	+13.1	Jul	4.95	4.53	4.87	4.56	4.21	5.64
Canada	+15.5	+ 6.5	Jul	4.14	2.75	4.02	4.14	3.87	5.33
Denmark	+10.3	+ 7.4	Jul	3.35	2.20	3.67	3.82	3.03	5.17‡
Japan	+ 3.2	+ 0.5	Jul	0.34	0.02	0.66	1.67	1.30	1.88
Sweden	+ 0.5	+11.0	Jul	2.57	1.47	3.32	3.75	2.95	3.87
Switzerland	- 1.3	+ 0.8	Jul	1.69	0.76	2.01	2.49	1.81	2.62
United States	+ 0.2	+ 4.9	Jul	5.34	3.63	4.83	4.80	4.13	5.76
Euro area†	+ 7.4	+ 7.8	Jul	3.29	2.13	3.59	3.79	3.07	4.61

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.97%, Japan No. 282 1.70%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.00%, BOJ overnight call 0.25%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Sep 7th 2006
From The Economist print edition

2000=100

	Aug 8th*	Aug 29th	Sep 5th†	% change on one month	% change on one year
Dollar index					
All items	175.8	171.7	174.6	– 0.7	+29.8
Food	136.8	132.8	135.2	– 1.2	+ 9.0
Industrials					
All	226.2	222.0	225.6	– 0.3	+52.4
Nfa‡	153.4	147.1	142.7	– 7.0	+ 5.4
Metals	265.9	262.9	270.8	+ 1.9	+74.7
Sterling index					
All items	139.8	137.6	139.9	+ 0.1	+26.4
Euro index					
All items	126.6	124.5	126.1	– 0.4	+26.5
Yen index					
All items	187.7	186.3	188.1	+ 0.2	+37.4
Gold					
$ per oz	644.57	621.85	637.50	– 1.1	+43.6
West Texas Intermediate					
$ per barrel	76.42	69.75	68.61	–10.2	+ 4.3

*Corrected †Provisional ‡Non-food agriculturals

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Stockmarkets

Sep 7th 2006
From The Economist print edition

Market indices

	Sep 6th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,078.7	5,318.2	4,708.8	+ 0.9	- 4.5	+ 7.9	+12.6
Austria (ATX)	3,727.1	4,344.4	3,324.1	- 0.4	- 14.2	+ 1.6	+10.2
Belgium (Bel 20)	3,885.2	3,987.3	3,445.1	- 1.5	- 2.6	+ 9.5	+18.7
Britain (FTSE 100)	5,929.3	6,132.7	5,506.8	nil	- 14.4	+ 5.5	+15.6
Canada (Toronto Composite)	11,999.7	12,487.3	10,904.3	- 0.6	- 3.9	+ 6.5	+12.5
Denmark (OMXCB)	369.3	395.5	325.0	+ 0.4	- 6.6	+ 0.4	+ 8.8
France (SBF 250)	3,599.8	3,755.6	3,244.2	- 1.2	- 18.0	+ 9.1	+18.2
France (CAC 40)	5,115.5	5,312.2	4,615.4	- 1.3	- 26.1	+ 8.5	+17.6
Germany (DAX)*	5,813.1	6,140.7	5,292.1	- 0.9	- 27.9	+ 7.5	+16.5
Italy (S&P/MIB)	37,829.0	38,765.0	34,850.0	- 0.4	- 24.5	+ 6.0	+14.9
Japan (Nikkei 225)	16,284.1	17,563.4	14,218.6	+ 2.6	- 58.2	+ 1.1	+ 2.3
Japan (Topix)	1,642.8	1,783.7	1,458.3	+ 1.9	- 43.1	- 0.4	+ 0.8
Netherlands (AEX)	466.7	478.0	412.9	- 0.7	- 33.5	+ 6.9	+15.9
Spain (Madrid SE)	1,318.0	1,335.4	1,156.8	- 0.3	- 1.3	+14.0	+23.6
Sweden (Affarsvarlden Gen)	313.8	333.7	275.2	+ 1.2	- 21.6	+ 6.9	+16.7
Switzerland (Swiss Market)	8,172.8	8,230.2	7,154.9	- 0.1	- 2.8	+ 7.8	+14.7
United States (DJIA)	11,406.2	11,642.7	10,667.4	+ 0.2	- 2.7	+ 6.4	+ 6.4
United States (S&P 500)	1,300.3	1,325.8	1,223.7	- 0.3	- 14.9	+ 4.2	+ 4.2
United States (NASDAQ Comp)	2,167.8	2,370.9	2,020.4	- 0.8	- 57.1	- 1.7	- 1.7
Europe (FTSEurofirst 300)†	1,364.0	1,405.6	1,238.7	- 0.8	- 20.0	+ 6.9	+15.9
Euro area (FTSE Euro 100)†	1,161.7	1,198.7	1,050.0	- 1.0	- 25.1	+ 6.7	+15.6
World (MSCI)‡	1,355.8	1,406.3	1,243.9	- 0.2	- 6.4	+ 7.8	+ 7.8
World bond market (Citigroup)††	647.0	652.0	612.1	- 0.2	- 3.0	+ 4.3	+ 4.3

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Sep 7th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Sep 6th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Sep 6th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006§
Australia	− 11.9 Jun	− 41.0 Q2	− 5.7	− 5.3	118.8	117.4	1.31	1.30	2.46	1.67	1.12	+ 0.9
Austria	− 1.3 Jun	+ 6.4 Q1	+ 0.5	+ 0.4	105.6§	104.6	0.78	0.80	1.47	–	0.67	− 1.9
Belgium	+ 14.9 Jun	+ 7.3 Mar	+ 1.5	+ 1.6	107.4§	106.1	0.78	0.80	1.47	–	0.67	− 0.4
Britain	−132.1 Jun	− 52.3 Q1	− 2.7	− 2.7	101.3	100.5	0.53	0.54	–	0.68	0.46	− 3.4
Canada	+ 60.2 Jun	+ 28.6 Q2	+ 2.3	+ 1.5	130.4	121.6	1.11	1.18	2.08	1.41	0.95	+ 2.2
Denmark	+ 8.4 Jun	+ 5.5 Jun	+ 2.0	+ 1.8	106.7	105.8	5.83	5.99	11.0	7.46	5.00	+ 3.3
France	− 32.3 Jun	− 33.4 Jun	− 1.7	− 1.4	108.3§	106.8	0.78	0.80	1.47	–	0.67	− 2.9
Germany	+186.4 Jun	+106.2 Jun	+ 3.6	+ 3.6	109.9§	108.1	0.78	0.80	1.47	–	0.67	− 3.1
Italy	− 21.4 Jun	− 34.7 Jun	− 1.7	− 1.5	107.9§	106.5	0.78	0.80	1.47	–	0.67	− 4.2
Japan	+ 79.0 Jun	+164.6 Jun	+ 3.6	+ 3.5	80.2	85.9	117	110	219	149	–	− 5.2
Netherlands	+ 39.5 Jun	+ 46.2 Q2	+ 6.0	+ 5.9	108.3§	106.8	0.78	0.80	1.47	–	0.67	− 0.5
Spain	−103.2 Jun	− 91.6 May	− 8.0	− 7.7	105.8§	104.8	0.78	0.80	1.47	–	0.67	+ 1.1
Sweden	+ 19.4 Jul	+ 24.1 Q2	+ 6.7	+ 6.0	97.4	96.4	7.29	7.48	13.7	9.33	6.25	+ 1.7
Switzerland	+ 7.7 Jul	+ 51.7 Q1	+12.7	+12.1	105.5	107.3	1.24	1.24	2.33	1.58	1.06	− 0.2
United States	−830.2 Jun	−808.5 Q1	− 6.7	− 6.7	83.2	84.1	–	–	1.88	1.28	0.86	− 3.6
Euro area	− 13.5 Jun	− 52.1 Jun	− 0.4	− 0.2	119.1	116.2	0.78	0.80	1.47	–	0.67	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 11.0 Jun	+ 11.0 Jun	na	na	109.0§	107.5	0.78	0.80	1.47	–	0.67	+ 2.2
Greece	− 37.7 May	− 25.0 Jun	na	na	104.8§	103.7	0.78	0.80	1.47	–	0.67	− 3.0
Iceland	− 2.0 Jul	− 3.1 Q1	na	na	87.4**	101.4	69.6	62.1	131	89.0	59.7	+ 2.0
Ireland	+ 38.1 Jun	− 5.6 Q1	na	na	113.7§	111.3	0.78	0.80	1.47	–	0.67	− 0.3
Luxembourg	− 5.1 Jun	+ 3.9 Q1	na	na	107.4§	106.1	0.78	0.80	1.47	–	0.67	− 1.7
New Zealand	− 4.6 Jul	− 10.1 Q1	na	na	126.8	136.5	1.54	1.42	2.90	1.97	1.32	+ 4.6
Norway	+ 59.0 Jul	+ 56.5 Q2	na	na	108.1	112.1	6.38	6.26	12.0	8.15	5.47	+ 18.5
Portugal	− 22.7 May	− 16.6 Jun	na	na	105.7**	106.0	0.78	0.80	1.47	–	0.67	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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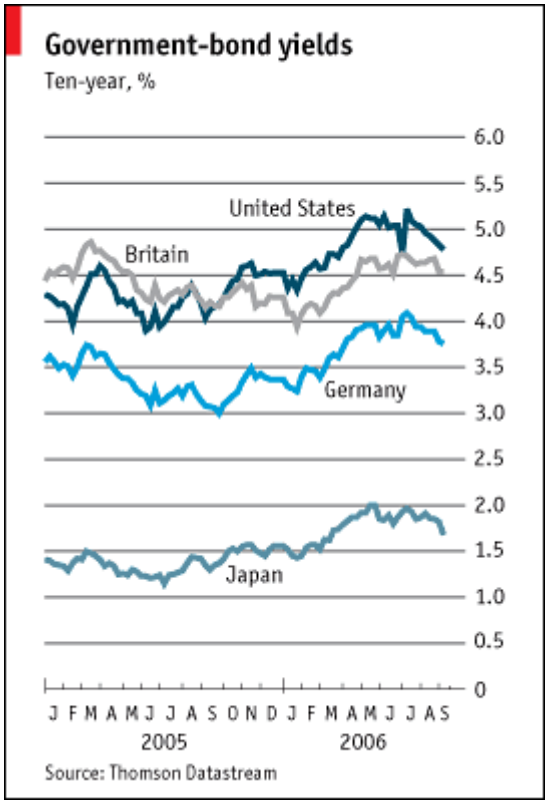
Government-bond yields

Sep 7th 2006
From The Economist print edition



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Overview

Sep 7th 2006
From The Economist print edition

Thailand's GDP growth slowed to 4.9% in the year to the second quarter, down from 6.1% in the first. **Brazil's** growth fell from 3.3% to 1.2% over the same period—the slowest growth of any economy in our table.

In August the inflation rate fell in several Asian economies, including **Taiwan, Thailand** and **Indonesia**. **Turkey's** rate also eased to 10.3%, from 11.7% in July. But **Argentina's** inflation edged up to 10.7%.

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Doing business

Sep 7th 2006
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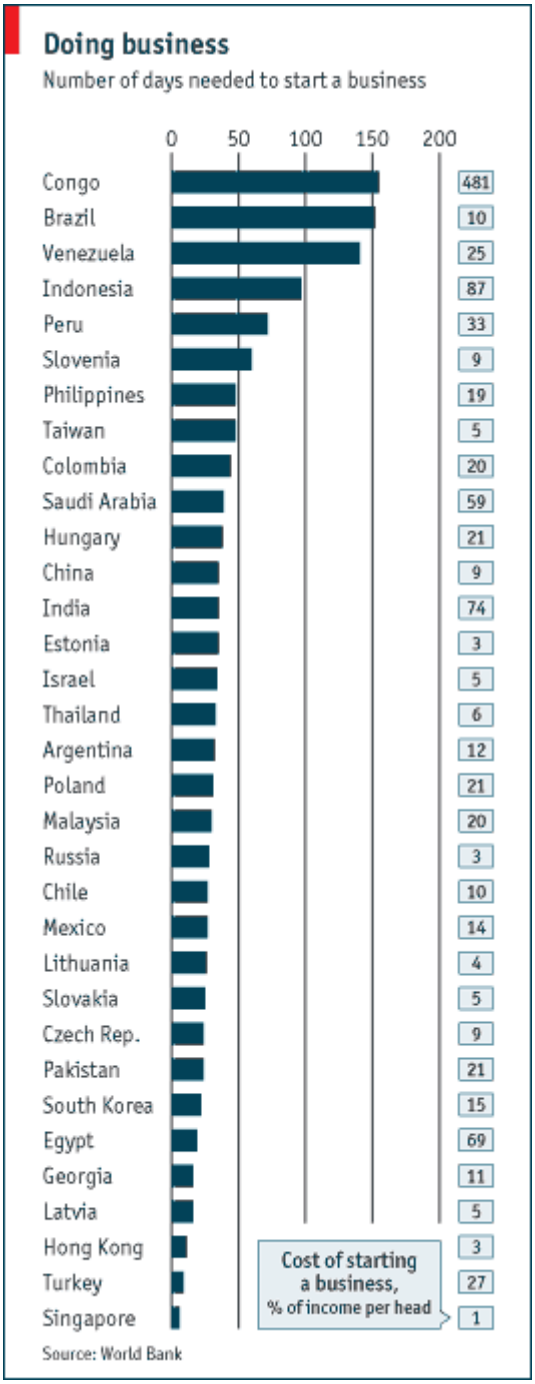
Singapore took first prize as the easiest place to do business in the World Bank's "Doing Business 2007" report. The Democratic Republic of Congo is the hardest place. Reform was the theme and Georgia the quickest reformer, leaping to 37th place in the rankings from 112th last year. China became one of the top-ten reformers by improving investor protection, cutting red tape and establishing credit history for loans.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.3	Q2	+16.7	Jul	+ 1.0	Jul	+127.0	Jul	+160.8	2005	941.1	Jun
Hong Kong	+ 5.2	Q2	+ 7.0	Q1	+ 2.3	Jul	−14.2	Jul	+20.8	Q1	127.4	Jul
India	+ 9.3	Q1	+ 9.6	Jun	+ 6.7	Jul	−41.3	Jul	−10.6	Q1	158.0	Aug
Indonesia	+ 5.2	Q2	+ 1.0	Jun	+14.9	Aug	+34.7	Jul	+ 3.8	Q1	38.5	Jun
Malaysia	+ 5.9	Q2	+ 7.3	Jul	+ 4.1	Jul	+28.0	Jul	+19.5	Q1	78.8	Jul
Pakistan	+ 6.6	2006†	+14.3	Jun§	+ 7.6	Jul	−12.5	Jul	− 5.0	Q2	11.6	Jun
Philippines	+ 5.5	Q2	− 4.3	Jun	+ 6.3	Aug	− 3.8	Jun	+ 2.9	Mar	18.3	Jul
Singapore	+ 8.1	Q2	+19.6	Jul	+ 1.1	Jul	+33.0	Jul	+38.3	Q2	129.9	Jul
South Korea	+ 5.3	Q2	+ 4.4	Jul	+ 2.9	Aug	+16.0	Aug	+ 6.0	Jul	227.0	Aug
Taiwan	+ 4.6	Q2	+ 7.9	Jul	− 0.6	Aug	+11.3	Jul	+20.6	Q2	261.0	Aug
Thailand	+ 4.9	Q2	+ 6.1	Jul	+ 3.8	Aug	− 2.3	Jul	+ 2.8	Jul	57.1	Jul
Argentina	+ 8.6	Q1	+ 8.8	Jul	+10.7	Aug	+11.5	Jul	+ 6.7	Q1	25.1	Jul
Brazil	+ 1.2	Q2	+ 3.2	Jul	+ 3.8	Aug	+46.1	Aug	+12.5	Jul	66.1	Jul
Chile	+ 4.5	Q2	+ 1.9	Jul	+ 3.8	Aug	+17.0	Jul	+ 2.2	Q2	16.3	Aug
Colombia	+ 3.7	Q2	+10.0	Jun	+ 4.7	Aug	+ 0.8	Jun	− 2.0	Q1	14.6	Jul
Mexico	+ 4.7	Q2	+ 6.9	Jun	+ 3.1	Jul	− 4.1	Jul	− 0.6	Q2	83.0	Jul
Peru	+ 6.9	Jun	+11.7	Jun	+ 1.9	Aug	+ 6.3	Jun	+ 1.3	Q2	13.5	Jul
Venezuela	+ 9.2	Q2	+13.7	May	+14.9	Aug	+37.2	Q2	+29.5	Q2	23.8	Jun
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 8.4	Jul	−11.2	Q1	+ 2.1	Q1	23.2	Aug
Israel	+ 6.2	Q2	+12.3	Jun	+ 2.4	Jul	− 7.9	Jul	+ 4.4	Q1	28.1	Aug
Saudi Arabia	+ 6.6	2005‡	na		+ 2.1	Jun	+126.5	2005	+90.7	2005	24.0	Jun
South Africa	+ 3.6	Q2	+ 6.1	Jun	+ 5.0	Jul	− 7.9	Jul	−11.7	Q1	21.9	Aug
Czech Republic	+ 7.4	Q1	+10.5	Jun	+ 2.9	Jul	+ 1.6	Jul	− 3.4	Q1	30.4	Jul
Hungary	+ 3.6	Q2	+12.2	Jul	+ 3.0	Jul	− 3.5	Jun	− 7.9	Q1	20.8	Aug
Poland	+ 5.5	Q2	+14.3	Jul	+ 1.1	Jul	− 2.4	Jun	− 4.2	Jun	16.3	Jul
Russia	+ 5.5	Q1	+ 2.9	Jul	+ 9.7	Aug	+138.6	Jun	+91.4	Q2	252.2	Aug
Turkey	+ 6.4	Q1	+11.4	Jun	+10.3	Aug	−50.1	Jul	−28.7	Jun	57.0	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+12.0	Q2	+ 7.6	Jul	+ 5.0	Aug	− 2.7	Jun	− 1.8	Jun	2.1	Jun
Latvia	+13.5	Q1	+ 5.7	Jun	+ 7.0	Jul	− 3.6	Jun	− 2.6	Jun	3.2	Jun
Lithuania	+ 7.7	Q2	na		+ 4.4	Jul	− 4.1	Jun	− 2.1	May	4.1	Jun
Slovakia	+ 6.2	Q2	+12.1	Jun	+ 5.0	Jul	− 2.9	Jun	− 4.6	May	15.5	Jun
Slovenia	+ 5.1	Q1	+ 4.3	Jun	+ 3.2	Aug	− 1.8	Jun	− 0.3	Jun	8.6	May

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Sep 7th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Sep 6th		Dec 30th 2005	
	Sep 6th	year ago	Sep 6th	% a year		one week	in local currency	in $ terms
China	7.94	8.09	14.9	3.00	1,758.1	+1.0	+ 44.0	+ 46.3
Hong Kong	7.78	7.77	14.6	4.24	17,258.5	-0.2	+ 16.0	+ 15.7
India	46.2	43.8	86.8	6.42	11,933.2	+1.8	+ 27.0	+ 23.8
Indonesia	9,088	10,410	17,092	11.83	1,472.6	+3.3	+ 26.7	+ 37.1
Malaysia	3.65	3.77	6.86	3.85	956.4	-0.2	+ 6.3	+ 10.1
Pakistan	60.4	59.8	114	9.96	10,068.7	-0.2	+ 5.4	+ 4.2
Philippines	50.3	56.1	94.5	7.31	2,396.2	+4.3	+ 14.3	+ 20.6
Singapore	1.57	1.68	2.95	3.50	2,526.5	+2.2	+ 7.6	+ 14.1
South Korea	957	1,027	1,800	4.68	1,357.0	+1.2	- 1.6	+ 3.9
Taiwan	32.8	32.6	61.7	1.79	6,688.4	+1.5	+ 2.1	+ 2.3
Thailand	37.4	41.0	70.3	5.38	702.0	+2.5	- 1.6	+ 7.9
Argentina	3.10	2.91	5.83	10.19	1,654.8	- 0.3	+ 7.2	+ 4.6
Brazil	2.14	2.33	4.02	14.18	36,709.0	+1.1	+ 9.7	+ 19.9
Chile	540	541	1,015	5.04	10,311.9	+0.8	+ 12.0	+ 6.2
Colombia	2,380	2,281	4,477	6.27	9,046.8	- 5.0	- 4.9	- 8.6
Mexico	10.9	10.7	20.5	7.04	20,965.2	- 1.7	+ 17.8	+ 14.7
Peru	3.24	3.29	6.10	4.50	10,408.9**	+5.7	+116.7	+129.2
Venezuela	2,700§	2,575§	5,079	10.00	35,125.2	nil	+ 72.2	+ 64.9
Egypt	5.74	5.77	10.79	8.85	53,344.1	-0.6	- 3.6	- 3.6
Israel	4.37	4.50	8.21	5.71	801.8	- 2.1	- 3.2	+ 2.1
Saudi Arabia	3.75	3.75	7.05	5.26	11,454.1	+3.1	- 31.5	- 31.5
South Africa	7.28	6.35	13.7	8.30	22,375.7	+1.5	+ 23.6	+ 7.8
Czech Republic	22.1	23.5	41.6	2.36	1,459.3	+1.7	- 0.9	+ 10.4
Hungary	216	196	406	7.68	22,737.4	+1.9	+ 9.4	+ 8.5
Poland	3.11	3.17	5.84	4.20	44,716.6	+2.1	+ 25.6	+ 31.7
Russia	26.7	28.2	50.2	11.50	1,630.3‡	- 1.3	+ 34.5	+ 44.8
Turkey	1.47	1.33	2.76	19.59	37,689.7	+2.1	- 5.2	- 12.7
EM (MSCI)*	1.00	1.00	1.88	na	780.9	+0.5	+ 10.5	+ 10.5
EMBI+†	1.00	1.00	1.88	na	389.5	+0.3	+ 5.7	+ 5.7

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value. **Aug 29th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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